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Financial Analysis of Oriflame Company

Finanční analýza společnosti Oriflame

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5. Conclusion

Bibliography
List of Abbreviations
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Annexes

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The declaration

"Herewith I declare that I elaborated the entire thesis, including all annexes independently."

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Contents:

1 Introduction

Financial analysis is a subject of financial analysis based on the financial information and other relevant information of the company's financial report, the analyses adopts the scientific standards and the scientific system to analyze the financial condition, operating results, financial credit and financial risks, and then make evaluation of the future development trend of the company. So financial analysis is a very significant tool to the managers of the company, also be important to the existing and potential shareholders of a company. Managers can discover the problems existing in business management and financial management in time, and then propose the direction of improvement and provide the basis for the making of business decisions. Shareholders can know about whether the company is able to create value and make plans what to do next step. For lenders of the company, financial analysis assesses the solvency and liquidity of a company, its ability to honour its commitments and repay its debts on time.

The goal of this thesis is to analyze the financial situation of Oriflame company from 2013 to 2017 by using financial ratio analysis and DuPont analysis.

This thesis consists five chapters to analyse the Oriflame company. The first chapter is introduction. The second chapter is description of the financial analysis methodology. The third chapter is financial characteristics of Oriflame. The fourth chapter is financial analysis of Oriflame. And the final chapter is conclusion.

In chapter 2, there is a description of financial analysis methodology. First, we describe financial statements and there are three kinds of financial statements, balance sheet, income statement and cash flow statement. It is the specific information of the company, by using the data provided in these financial statements, various ratios can be calculated to estimate financial condition of the company. Then, we introduce common-size analysis which includes vertical common-size analysis and horizontal common-size analysis. And last part is financial ratio analysis, and it contains profitability ratios, liquidity ratios, solvency ratios, activity ratios and DuPont analysis.

In chapter 3, we introduce the financial characteristic of Oriflame company. The first part is the basic description of Oriflame, it contains the history of Oriflame, the corporate governance and the competiton in recent years. Oriflame is a beauty company selling direct in more than 60 countries and is a public company listed on the Nasdaq

Stockholm Exchange. It may have rich experience during its development and is meaningful for us to learn from it. The next part is common-size analysis of Oriflame company. We will use the annual report of Oriflame and analyse it from vertical view and horizontal view.

In chapter 4, we use financial ratios and DuPont System to analyse Oriflame. Financial ratio analysis compares financial data in the form of financial ratios to assess the financial health of the company, and the ratios are calculated from financial statements. There are five groups of financial ratios: profitability ratios, liquidity ratios, solvency, activity ratios.

2 Description of the Financial Analysis Methodology

Financial analysis refers to economic activities after the completion of the economic activities of economic analysis to determine the next round of economic activities to achieve a healthier finance. This chapter describe the main financial analysis methodology to analyse a company.

First, we will introduce the basic knowledge, the financial statements. It is the financial data and the source of information. The financial statements are prepared based on the accounting standards and reflect the financial conditions and operations of the accounting entities externally to the owners, creditors, the government, other relevant parties and the public. It contains three parts: balance sheet, income statements and cash flow statements. Second, we will introduce common-size analysis which includes vertical common-size analysis and horizontal common-size analysis. Common-size analysis is analysis of financial statements data and their changes over the time. The aim is to identify the trends and major differences. Last, we will introduce financial ratio analysis. It contains some formulas and sense of difference ratio.

2.1 Financial Statements

There are three basic financial statements summarizing information about a company: Balance sheet, income statement and cash flow statement. External investors can make the right investment decisions by analyzing balance sheet, income statements and cash flow statements. Tax authorities and regulatory authorities also need these financial data for the effective supervision and management of public companies. Through the information disclosed by the public company, the shareholders, creditors and other stakeholders can understand the operation status of the public company. Because of financial statements, listed companies are no longer out of reach, but real close to ordinary people's lives.

2.1.2 Balance Sheet

Balance sheet summarize the assets of a company, the value of these assets and the mix of financing used to finance these assets at a given point in time. It summarizes the information about what the company owns, the value of these assets and mix of capital used for financing these assets. Balance sheet mainly reflect the three aspects: assets, equity and liabilities. Assets are on the left of the balance sheet, equity and liabilities are on the right of balance sheet. And asset is expressed as:

$$asset = debt + liability \quad (2.1)$$

Tab. 2.1: Balance sheet structure.

Balance sheet	
Assets	**Equity + liabilities**
Fixed assets	**Equity**
Tangible assets	Preferred/common stock
Intangible assets	Share premium
Financial investment	Retained earnings
Current assets	**Liabilities**
Cash and cash equivalents	**Current liabilities**
Accounts receivables	Accounts payable
Inventories	Current borrowings
	Other short-term liabilities
	Long-term liabilities
	Long-term bank loans
	Bonds issued
Total assets	**Total equity and liabilities**

Source: Financial managemet: A practical approach.

Assets are generated by investing activities, operating activities or financing activities. It includes fixed assets and current assets. Fixed assets is also long-term assets which include long-term assets which relatively have long life and low liquidity. It includes tangible assets, intangible assets and financial investments. Current assets is also short-term assets which have short life and high liquidity. It includes accounts receivable, inventories, cash and cash equivalents.

Equity and liabilities is a mix of capital for financing of company's assets. Equity represents the shareholder's investment to a company and the capital belonging to the owners or shareholders of the company, and it is the contribution of the owners or by company's profit. Equity includes common and preferred shares, share premium and retained earnings.

Liabilities represents money that has been borrowed and must be repaid back at some predetermined date, it is the source of capital provided by creditors. Liabilities include short-term liabilities and long-term liabilities. Short-term liabilities include accounts payable, accrued and short-term notes. Long-term includes loans from banks, issued bond, etc.

Balance sheet reflect the significant evidence of the financial position of an enterprise over a period of time. It reveals a report on the actual value of an enterprise through the statistics of all the assets, liabilities and all the equity of the enterprise. It is a good tool in the investment risk analysis because of the detail information. The balance sheet covers the specific conditions of various assets, liabilities and related ownership in many enterprises, can play a supportive role in financing and investment in the enterprise. When a company applies for a loan from a bank, it must provide it with the statement of assets and liabilities in the enterprise, otherwise it will make the loan more difficult. Therefore, the information in the assets and liabilities report in the enterprise can reflect the economic strength of the enterprise and provide protection for the market competitiveness of the enterprise.

2.1.2 Income Statement

Income statement indicates the amount of profit generated by a company over a certain period and compares the company's revenues and company's costs and expenses. Net income expressed as:

$$net\,income = revenue - \cos t \,. \tag{2.2}$$

Revenues are the amounts charged for the delivery of goods or services in the ordinary activities of the company. Costs are the amounts that must be spent in the ordinary activities of the company.

Tab. 2.2 Income statement structure.

Revenue
-Cost of goods sold
= Gross profit
-Operating expenses
+ Operating income
= Operating profit
-Financial expenses
+ Financial income
= Profit before tax
-Taxation
= Net profit

Source: Financial managemet: A practical approach.

Income statement has two main subtotals, operating activity and financing activity. Operating activity calculated as a difference between the sum of operating revenues and operating costs and expenses. Financing activity compare the financial revenues and financial costs.

Although both the balance and the income statement can reflect the financial status of the enterprise, the difference from the balance sheet statement is that the income statement can be calculated by comparing the revenue of a certain period with the related costs and expenses net profit and net loss. These data enable the managers to see the profitability of the enterprise visually and provide important reference for many data analysis in the later period. When we analyzing the profitability of an enterprise, the financial management department can conduct a comprehensive evaluation based on the relevant data in the income statement, they can also summarize the trend and development direction of the enterprise's future development through evaluation.

2.1.3 Cash Flow Statement

Cash flow statement provides information about company's inflows and cash outflows during a period, often a year. Cash inflows are the amount of money received during a particular period. Cash outflows are the amount of money spent during a particular period. And net cash flow and cash at the end can be defined as:

$$net\ cash\ flow = sum\ of\ \inf lows - sum\ of\ outflows, \tag{2.3}$$

$$cash\,at\,the\;end = cash\,at\,the\,begnning \pm net\,cash\;flow. \tag{2.4}$$

Tab. 2.3: Cash flow statement structure.

Operating activities
Net income/loss
Net income/loss adjustment by non-cash components (depreciation)
Changes in current assets
Changes in current liabilities
Net cash flow from operating activities=inflows-outflows
Investing activities
Changes in long-term assets
Purchase of assets and financial investment (outflows)
Sale of assets and financial investment (inflows)
Net cash flow from investing activities=inflows-outflows
Financing activities
Changes in capital stock
Changes in long-term debt
Dividends paid to shareholders (out flows)
Net cash flow from financing activities=inflows-outflows
End cash balance=beginning cash balance+/-net cash inflow/outflow

Source: Financial managemet: A practical approach.

Cash flow can be divided into three kinds: cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. Formats of reporting cash flow from operating activities can be divided into two: direct method and indirect method. Direct method eliminates any impact of accruals and shows only cash payments in the form of inflows and outflows. Indirect method is applied only in the calculation of cash flow from operating activities cash flow are obtained from reported net income statement after series of adjustments.

As an analytical tool, the main function of the cash flow statement is to determine the short-term viability of the company, especially its ability to pay bills. The cash flow statement can generally reflect the impact of business activities, investment activities and fund-raising activities on the cash inflows and outflows of the company. And provide good information for evaluating the realized profits, financial status and financial management of the enterprises.

2.2 Common-size Analysis

Common-size analysis is analysis of financial statements data and their changes over the time. The aim is to identify the trends and major differences. Common-size analysis is mainly a static analysis, that is, the analysis of the changes of the various components of the economic system within a certain period of time.There are two types of common-size analysis, one is horizontal common-size analysis and the other is vertical common-size analysis.

2.2.1 Vertical Common-size Analysis

Vertical common-size analysis is analysis of the changes in the proportions of selected benchmarks, like total revenues, total assets, total liabilities and so on.

In a financial statement, the data of each item in the table are compared with the overall figure to find out the location, importance and changes of the item in the population. Pay more attention to the internal structure of the project within the report structure analysis. It simply performs a vertical analysis of the current income statement or balance sheet. All items in the income statement are expressed as a percentage of operating income and items in the balance sheet are expressed as a percentage of total assets. There are two reasons to use vertical common-size analysis: first is to evaluate information from one period to the next within a company and second is to evaluate a company relative to its competitors.

And the proportion of the item is expressed as:

$$\%E = \frac{amount\,of\,individul\,item}{total\,amount\,of\,the\,\,item}. \tag{2.5}$$

2.2.2 Horizontal Common-size Analysis

Horizontal common-size analysis is analysis of the evolution of financial statements data over the time or their changes with respect to a given period as a benchmark, to study the development of the company's business performance or financial situation changes. The comparison conducted by the horizontal analysis does not refer to the comparison of single indicators but to a comprehensive comparative analysis of the statements reflecting some aspects of the situation.

The number of changes can be defined as:

$$\Delta E = amount\ in\ analysis\ period - amount\ in\ based\ period. \tag{2.6}$$

The change rate can be defined as:

$$\% \Delta E = \frac{\Delta E}{amount\ in\ base\ period} \cdot 100. \tag{2.7}$$

When using horizontal common-size analysis to analyze, we should pay attention to the comparability of relevant indicators to see if there is any change in accounting policies or accounting treatment that affects the comparability of certain items in the statements. At the same time, we should also understand the changes in the relative proportions of various projects.

2.3 Financial Ratio Analysis

Financial ratio analysis use some important items that on the same period financial statements to be compared with each other, with one data divided by another data to determine the ratio, to analyse and evaluate business results, and compared with the historical situation. These financial ratios are calculated from financial data and market data, among which is relationship. Fianancial ratio analysis is the basic method of financial analysis that asses the financial health of the company. There are four kinds of financial ratios: proftbility ratios, liquidity ratios, solvency ratios and activity ratios.

2.3.1Profitability Ratios

Profitability ratios measure the ability to generate profit from invested capital in the form of return during a period (in %). It is a measure of business efficiency indicators, and it can provide decision-makers for business-related comprehensive evaluation of business performance data. The higher the profitability ratios indicate the better competitive position of the company. There are four basic profitbility ratios: operating profit margin, net profit margin,return on assets and return on equity.

Operating profit margin(OPM) refers to the ratio of operating profit to operating revenue of a company. It is a measure of business efficiency indicators, reflecting the ability of business managers to make profit under circumstance of taking the business costs into consideration. It calculates the ratio of earning before interest and tax to the revenue. And operating profit margin is computed as:

$$OPM = \frac{EBIT}{\mathrm{Re}\,v}, \text{ or} \tag{2.8}$$

$$OPM = \frac{OP}{\mathrm{Re}\,v}. \tag{2.9}$$

In this formula, *EBIT* is earning before interest and tax, *Rev* is the revenue during the period, *OP* is operating profit.

Net profit margin(NPM) is the profit margin after deducting all costs, expenses and income tax and measures net profit per one unit of revenues. The amount of net profit depends on two factors: one the total profit, the other is the income tax rate. If the total profit is same, the company with low tax rate **will** have high net profit margin, and the profitability ratio will be high. If the tax rate is same, the company with high profit will have high net profit margin. The net profit margin is computed as:

$$NPM = \frac{EAT}{\mathrm{Re}\,v}. \tag{2.10}$$

In this formula, *EAT* is earning after tax, *Rev* is revenue.

Return on assets(ROA) is an indicator measures how much net profit per unit of assets, it can also be interpreted as the ratio of the amount of corporate profits and the average ratio of corporate assets. Return on Assets is an index reflecting the effect of comprehensive utilization of assets of a company. It is also an important indicator for measuring the profits made by enterprises using the total amount of creditors and their owners' equity. If the rate of return on assets is high, the utilization efficiency of assets will be high, and the company will be more profitbility, so the management level of the company will be high. On the other hand, if the rate of return on assetsis low, the utilization of the assetsof the company will be less efficient, and the profitbility will be low. The return on assets is computed as:

$$ROA = \frac{EBIT}{A}. \tag{2.11}$$

Return on equity(ROE) is the percentage of net profit to average shareholders' equity, which is the percentage of the company's profit after tax divided by net equity. This indicator reflects the return of shareholders' equity and is used to measure the efficiency with which the company uses its own capital. The higher the return on equity, the higher the return on investment. It also makes up for the lack of profit indicators after tax per share. For exampe, after the company issued shares, earnings per share will decline, and it gives investors illusion that the company's profitability decreased, in fact, the company's profitability has not changed. So return on equity is a good indicator to meassure the profitbility. The return on equity is computed as:

$$ROE = \frac{EAT}{Equity}. \tag{2.12}$$

2.3.2 Liquidity Ratios

Liquidity ratios measure the ability of a company to meet the short-term liabilities, they compare company's liquid assets and short-term liabilities So it is better for a company to have higher liquidity ratios. If the short-term solvency ability is low, it may not only affect the order of company, increase the cost and difficulty of raising funds in the future, but may also make the company fall into financial crisis. There are three basic liquidity ratios: current ratio, quick ratio and cash ratio:

Current ratio is an important indicator that measures liquidity of a company's performance, which reflects the ability of companys to repay short-term debt and maintain normal production and business activities. It can be used by business acquisitors to analyze whether the current assets of the companies to be purchased are sufficient to cover current liabilities. The current assets ratio is the ratio of total current assets divided by total current liabilities, and it is computed as:

$$Current\,ratio = \frac{current\,assets}{current\,libilities}. \tag{2.13}$$

The current assets of the company mainly include: (1) cash and cash equivalents; (2) accounts receivable, (3) inventories. The current liabilities of the company are the borrowed money that must be paid back within twelve months, they mainly include: (1) accounts payable, (2) accured expenses,(3) short-term notes.

From a practical point of view, the current assets ratio of company should be maintained at about 2 times. If this ratio reaches more than 2 times, the asset liquidity is sufficient; if it is between 1.0 and 1.5 times, the asset liquidity is inadequate; if it is below 1.0 times, which may indicate that the company. debt is difficult to pay. (*Source: Foreign trade and economic accounting(1999)).*

Quick ratio is an indicator measures the liquidity of an company's assets that more strict than current ratio.and reflects the ability of a company to liquidate its current liabilities promptly more accurately. Instead of using the entire current assets of the company, it use the current assets subtract inentories. The quick ratio is computed as:

$$Quick\,ratio = \frac{current\,assets - inventories}{current\,liabilities}, or \tag{2.14}$$

$$Quick\,ratio = \frac{cash + accounts\,receivable}{current\,liabilities}. \tag{2.15}$$

Quick-moving assets are those assets that can be quickly used to pay off all kinds of current liabilities at any time. They are the balance left over from the liquid assets with low liquidity. They can be quickly used to pay off short-term debts and any possible expenses.

For a typical company, the quick ratio is around 1. If the quick ratio is 1, the company's cash, bank deposits and a variety of quick-turn short-term assets are equal to the amount of current liabilities, and the company do not have to use inventory to meet various short-term debt and other necessary expenses, and the solvency ability is strong. It is not good for a company to have quick ratio too high or too low. If it is lower than 0.5, the company short of money in short term and if it cannot raise money, the company will fall into the plight of unable to pay short-term debt. If it is more than 2 times, it shows that the corporate asset structure is not reasonable enough, the proportion of low-yielding assets is too high and it will lead to low profitability. (*Source: Academic Forum(2005)).*

Cash ratio is the best indicator to measure the ability to meet short-term liabilities. Calculating the cash ratio is an extremely conservative attitude taken when there is a problem with the liquidity of accounts receivable and inventories. The cash ratio is computed as:

$$Cash\,ratio = \frac{cash + marketable\,securities}{current\,liabilities}. \tag{2.16}$$

Cash ratio is not an important indicator when we evaluate the liquidity of a company. If a company must rely on cash and cash equivalents to pay its debts, its solvency ability has been compromised. The cash ratio reflects the immediate liquidity of an enterprise. If the ratio is very high, it is not a good thing. It may reflect that the company is not good at making full use of cash resources and has not put cash into operation. Therefore, it is necessary to fully understand the situation of the company and the cash ratio.

2.3.3 Solvency Ratios

Solvency ratios measure a company's ability to meet its long-term obligations. It is a ratio of the total amount of company self-owned funds to the total amount of long-term and short-term funds provided by corporate creditors. This ratio is very important. Because it shows the reliability that companies use their own funds to repay creditors' debt. It can also be used to measure the size of the risks a company faces when it borrows money for profit. Solvency ratios include three basic ratios:debt ratio, debt-to-equity ratio and interest coverage.

Debt ratio is an indicator that reflect the share of debt in total assets of a company, and is calculated by dividing the total assets by the total liabilities, including long-term and short-term liabilities. Debt ratio reflects the risks borne by all parties involved in the company. Debt ratio is computed as:

$$Debt\,ratio = \frac{total\,debt}{total\,assets}. \tag{2.17}$$

Under normal circumstances, the debt ratio should not exceed 50%. The higher the debt ratio, the greater the leverage and the greater the risk to the business. But it does not mean it is good for debt ratio to be low. Because the debt means the manager can use the shareholders' assets appropriatly, and help shareholders use less money to conduct larger-scale operations. So if the debt ratio is low, the company does not use the capital appropriatly.

Debt-to-equity ratio is similar to debt ratio. It measures the size of a creditor's contribution to a company and therefore it is an important indicator of risk for corporate management, creditors and investors. It is computed as:

$$Debt\,to\,equity = \frac{total\,debt}{equity}. \tag{2.18}$$

If debt to equity ratio is higher than 1, the company use more debt for assets financing than equity.

Interest coverage measures whether a company's operating profit is sufficient to cover its interest expense for the year. It refers to how many times the investment business income to the debt obligations. It measures whether the company's current income can ensure payment of interest for the current period and reflects the pressure on the amount of interest payable by the company. The interest payment pressure of a company is a direct reflection of its debt pressure. If a business can not even pay interest, it can not repay its debt principal. Interest coverage is computed as:

$$Interest\,coverage = \frac{EBIT}{interest\,paid}. \tag{2.19}$$

The interest coverage is inversely proportional to the pressure on the company's interest payment. The high rate of interest coverage shows that the interest burden on the company is light. On the contrary, it shows that the interest burden on it is heavy. The level of interest coverage but also related to the size of the security of the proceeds of creditors. In order to ensure the creditors put money in the security, it requires companys to achieve a certain high rate of interest coverage. Due to the different nature of the company, interest coverage in different companys are not the same.

2.3.4 Activity Ratios

Activity ratio measures how well a company uses its assets for the operation. They use the turnover rate of varies assets of the company to measure the asset utilization efficiency. The faster the turnover means that the assets of the company are put into production. The faster turnover of the sales and other business sectors means the cycle of revenue and profits is shorter, the operational efficiency will be higher. Activity ratios include four basic ratios: average collection period, accounts receivable turnover, inventory turnover and total assets turnover.

Average collection period(ACP) measures the conversion of accounts receivables into cash. In a certain period of time, the shorter the turnover days, the greater the liquidity of accounts receivable. Average collection period is computed as :

$$ACP = \frac{accounts receivable}{revenues} \cdot 360. \tag{2.20}$$

Accounts receivable turnover(ART) measures the speed that accounts receivable convert into cash, and reflects the operating efficiency of company funds, but also reflects the ability of corporate solvency. If the accounts receivable be converted into cash quickly, it can be used for investment to get more profit. If accounts receivable be converted into cash slowlyand the outflow of cash will be more,so the company need to raise more short-term funds. If the accounts receivable can not be recovered, company has to increase borrowings to maintain the necessary ability to pay, and it will result in more interest expenses. Accounts receivable turnover is computed as:

$$ART = \frac{\mathrm{Re}\,venues}{Accounts receivable}. \tag{2.21}$$

If the accounts receivable turnover is fast, the average collection period will be less. However, there is no single measurement standards of accounts receivable turnover and average collection period. Because companys in different industries have different quality, function and utility of goods, there are different behaviors in market transactions around the world. There is also some difference between the macroeconomic environment and the competitive state, so the turnover rate of accounts receivable is not the same.

Inventory turnover(IT) measures the number of times inventory is sold or use within one year business. The calculation is the cost of sales divided by the total inventory. The higher the indicator, the better is the utilization of the funds put on inventory. Inventory turnover is computed as:

$$IT = \frac{\cos ts\ of\ goods sold}{average inventory}. \tag{2.22}$$

Inventory turnover rate is one of the most important indexes in the analysis of business operation ability, which is widely used in business management decision-making. Inventory turnover can not only be used to measure the operational efficiency of inventory in all aspects of production and operation, but also used to evaluate the business performance of companies. The higher the inventory turnover rate, the stronger the liquidity of the inventory assets of the company, the faster the turnover of the inventory and the capital that are used up in the inventory.

Total assets turnover(TAT) measures the ability of a company to generate sales revenue by using all the resources it has. The total asset turnover reflects the overall operational capacity of the company as a whole. Generally speaking, the more assets are circulated or the fewer the turnover days indicate that the faster the turnover rate, the greater the operational capacity. Total assets turnover is computed as:

$$TAT = \frac{\mathrm{Re}\,venues}{total\ assets}. \tag{2.23}$$

2.3.5 DuPont Analysis

DuPont analysis is a more practical method of financial ratio analysis. This method of analysis was first created by the manager of the DuPont company, so called DuPont analysis. It decomposes the return on equity into the use of the most basic production factors of the company, calculates the level of the relevant major financial indicators and changes, and then analyzes the major financial indicators at different levels and divides them into items in balance sheets and income statements. The aim is to find the best management system to operate the company.

The first step to use DuPont analysis is using pyramidal decompositions to decompose ROE. So ROE is expressed as:

$$ROE = \frac{EAT}{Equity} = \frac{EAT}{\mathrm{Re}\,venues} \cdot \frac{\mathrm{Re}\,venues}{Total\,assets} \cdot \frac{Total\,assets}{Equity}. \qquad (2.24)$$

In this formula, $\frac{EAT}{\mathrm{Re}\,venues}$ is net profit margin, $\frac{\mathrm{Re}\,venues}{Total\,assets}$ is assets turnover, and $\frac{Total\,assets}{Equity}$ is financial leverage.

If we want to separate the effects of taxes and interest, we can decompose the net profit margin:

$$\frac{EAT}{\mathrm{Re}\,venues} = \frac{EAT}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{\mathrm{Re}\,venues}. \qquad (2.25)$$

In this formula, $\frac{EAT}{EBT}$ is tax burden, $\frac{EBT}{EBIT}$ is interest burden and $\frac{EBIT}{\mathrm{Re}\,venues}$ is operating margin.

Then we can use DuPont analysis to decompose ROE:

$$ROE = \frac{EAT}{Equity} = \frac{EAT}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{\mathrm{Re}\,venues} \cdot \frac{\mathrm{Re}\,venues}{Total\,assets} \cdot \frac{Total\,assets}{Equity}. \qquad (2.26)$$

So ROE can be expressed as:

$$ROE = Tax\ burden \cdot Interest\ burden \cdot operating\ m\arg in \cdot Assets\ turnover \cdot Financial\ leverage \qquad (2.27)$$

Then we will introduce four methods for quantification of influence: methods of gradual changes, logarithmic decomposition method, functional decomposition method, and integral method.

Methods of gradual changes works with absolute changes in component ratios. For example, there are three component ratios:

$$\Delta x_{a_1} = \Delta a_1 \cdot a_{2.0} \cdot a_{3.0}$$
$$\Delta x_{a_2} = a_{1.1} \cdot \Delta a_2 \cdot a_{3.0}$$
$$\Delta x_{a_3} = a_{1.1} \cdot a_{2.1} \cdot \Delta a_3. \tag{2.28}$$

In this formula, x is basic ratio; Δx is absolute change($x_1 - x_2$) in the basic ratio; a is component ratio; Δa is absolute change($a_1 - a_0$) in the component ratio; Δx_{a_1} is absolute change in the basic ratio casued by the change in the first (a_1) component ratio. After we caculate the influence of these component, we can sort order of them according to the size. The advantage of method of gradual changes is that we can use it regardless the ratio is positive or negative. The disadvantage is the resaults are influenced by the order of decomposition.

Logarithmic decomposition method works with logarithmic. The impact of component is computed as:

$$\Delta x_{a_1} = \frac{\ln I_{a_1}}{\ln I_X} \cdot \Delta X. \tag{2.29}$$

In this formula, x is basic ratio; Δx is absolute change($x_1 - x_2$) in the basic ratio; $I_X = \frac{x_1}{x_0}$ is the index of change in basic ratio; $I_a = \frac{a_{i.1}}{a_{i.0}}$ is the index of change in component ratio. The advantage of logarithmic decomposition method is there just one formula and the resault does not change with the order change. The disadvantage is it cannot be used if the component ratio is negative.

Functional decomposition method works with relative changes i basic and component ratios. So:

$$\Delta x = R_X = \frac{x_1 - x_0}{x_0}, \tag{2.30}$$

$$\Delta a = R_{a_1} = \frac{a_1 - a_0}{a_0}. \tag{2.31}$$

For example there are three component ratios and the impact of component ratio is computed as:

$$\Delta x_{a_1} = \frac{R_{a_1}}{R_x} \cdot (1 + \frac{1}{2} R_{a_2} + \frac{1}{2} R_{a_3} + \frac{1}{3} R_{a_2} \cdot R_{a_3}) \cdot \Delta x$$
$$\Delta x_{a_2} = \frac{R_{a_2}}{R_x} \cdot (1 + \frac{1}{2} R_{a_1} + \frac{1}{2} R_{a_3} + \frac{1}{3} R_{a_1} \cdot R_{a_3}) \cdot \Delta x$$
$$\Delta x_{a_3} = \frac{R_{a_3}}{R_x} \cdot (1 + \frac{1}{2} R_{a_1} + \frac{1}{2} R_{a_2} + \frac{1}{3} R_{a_1} \cdot R_{a_2}) \cdot \Delta x. \tag{2.32}$$

Functional decomposition method can be used regardless of the signs of the relative changes. So it is a good tool to analyse the influence of component ratios.

Integral decomposition method is similar to functional decomposition method. It is computed as:

$$\Delta x_{a_j} = \frac{R_{a_j}}{R_x} \cdot \Delta x, \tag{2.33}$$

and R_X is computed as:

$$R_X = \sum_{j=1}^{N} R_{a_j} \ . \tag{2.34}$$

It is another tool to analyse the influence of component ratios, and it is more simple and convenient than functional decomposition method. We can use different methods to analyse these component ratios thoroughly.

3 Financial Characteristics of Oriflame Company

In this chapter, we will introduce the Oriflame company specifically. First, we will introduce the specific condition of Oriflame company, include its history, corporate governance and the competition it face. Then, we will use common-size analysis to analyse the company and it includes vertical common-size analysis and horizontal common-size analysis.

3.1 Introduction of the Company

In this part, we will introduce the basic information of the company, the history, governance and competition.

This is a brief introduction of Oriflame company on its official website: *"Oriflame is a beauty company selling direct in more than 60 countries, and it is a Swiss company group listed on the Nasdaq Stockholm Exchange. Its wide portfolio of Swedish, nature-inspired, innovative beauty products is marketed through approximately 3 million independent Oriflame Consultants, generating annual sales of around €1.2 billion. Respect for people and nature underlies Oriflame's operating principles and is reflected in its social and environmental policies.* [1]*"*

Oriflame has a broad product offering that spans over six categories; Skin Care, Colour Cosmetics, Fragrance, Personal & Hair Care, Accessories and Wellness. The core values of Oriflame company is togetherness, spirit and passion. Togetherness means they think highly of team work, spirit makes the employees never give up and prepare to face any trouble, and the passion makes them have energe to change and do something. Oriflame also supports numerous charities worldwide and is a Co-founder of the World Childhood Foundation. This make Oriflame become Europe's largest direct selling cosmetics company and one of the fastest growing cosmetic companies in the world.

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[1] Source: http://investors.oriflame.com/investors/oriflame-in-brief

3.1.1 History of Oriflame Company

Because of Sweden's abundant natural resources, Jonas Hanlin and Robert Hanlin brothers founded Oriflame Cosmetics in Stockholm, Sweden in 1967. They use Nordic natural plant extracts as raw materia, "*put pure nature beauty into the bottle*" [2]to develope the pure, gentle and efficient skin care products.

In the wake of the global economic crisis in emerging markets in 1998, Oriflame's business in Russia was affected. When confronted with the conflict between corporate philosophy and shareholder interest, in 1999, the Hanlin Brothers and Industri Kapital completed the company's debt buyout, leaving Oriflame out of the London Stock Exchange and back into a private company for the next major series of reform. Subsequently, Oriflame focused on product, product catalog and distribution, implemented a series of key strategies reform. Just a few years the Oriflame company get into another period of rapid growth.

In 2001 and 2003, Oriflame acquired the manufacturing facilities in New Delhi, India and Stockholm, Sweden respectively. The winter of 2002, Oriflame opened the world's first concept store in Stockholm. The fall of 2003, Oriflame ruined the Russian plant.

In 2004, Oriflame officially came to China and actively integrated global research and development resources, carefully developed the most suitable products for Asians. In the spring of 2006, Oriflame star products snow skin series launched in China as the premiere.

Now, Oriflame's sales network has been around the world in 63 countries, to become a truly international well-known brands.

3.1.2 Corporate Governance of Oriflame Company

Board of directors

Board is ultimately responsible for the management of the Company's affairs. Oriflame's Board members are appointed at the Annual General Meeting and, unless re-elected, remain in office for a term of one year. Currently, the Board consists of ten

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[2]Source: http://investors.oriflame.com/investors/oriflame-in-brief

members. The Board consists of principal shareholders and persons independent of such shareholders. Borad of directors includes nine people, and the CEO is also a member of the Board

Management

It includes three parts:corporate committee,group management and senior management. Corporate committee have three people, Magnus Brännström is CEO and president, Gabriel Bennet is CFO and Jesper Martinsson is deputy CEO、senior vice president and head of commercial division. Group management includes seven people, except for the three above, they have four people be responsible for group strategy & business development、global business area Asia and Turkey、franchisees and quality management, packaging & artwork. Senior management include twenty-seven person, they are resposible for many ways of Oriflame company.

Internal control and monitoring

Back in 2010, the Group selected the COSO framework as a basis for internal control. The COSO framework was issued by the Committee of Sponsoring Organisations of the Treadway Commission. The framework consists of five components: control environment, risk assessment, control activities, information and communication, monitoring. Since then, Internal Control is a permanent function within the Group.

3.1.3 Competition

Though Oriflame have sold direct in more than 60 countries, but we can see from the map that they don't include some western economic power countries, such as United States, Japan, Germany, France, Italy and so on. Most of their choices are developing countries. So they still have competition in these big countries.

Oriflame officially landed in the Chinese market on January 9. 2007, but it could't exceeded the American company Amway and Mary Kay. There are many reasons except the time they came to China. Despite the fact that the president of China has been replaced many times, the 9.6 billion square kilometers of land in China still can not realize their glory in the European market. There is still a long way for Oriflame to go in the future.

3.2 Common-size Analysis of Oriflame Company

We will analyse Oriflame company by using common-size analysis and it includes two ways, vertical common-size analysis and horizontal common-size analysis. The basis to analyse is balance sheet and income statement of Oriflame company.

The following Tab.3.1 is the balance sheet of Oriflame company from 2013 to 2017.

Tab. 3.1: Balance sheet of Oriflame from 2013 to 2017(Euro'000).

	2013	2014	2015	2016	2017
Long-term assets	304010	213187	192824	205872	199297
Current assets	463088	485952	530804	539922	533166
Total assets	**767098**	**699139**	**723628**	**745794**	**732463**
Long-term liabilities	387291	315273	352112	210428	206845
Current liabilities	211604	242949	218059	323642	304022
Total liabilities	**598895**	**558222**	**570171**	**534070**	**510867**
Total equity	**168203**	**140917**	**153457**	**211724**	**221596**

Source: Oriflame company Annual Report.

From the balance sheet of Oriflame company, we can see that the total assets, total liabilities and total equity were fluctuation from 2013 to 2014 and there was not any unitive tendency for these items. We will analyse why these items changed as this tendency in the following part.

The following Tab.3.2 is the income statement of Oriflame company from 2013 to 2017.

Tab. 3.2: Income statement of Oriflame from 2013 to 2017(Euro'000).

	2013	2014	2015	2016	2017
Revenues	1406721	1265849	1211563	1249382	1363111
Cost	420291	399468	373248	366467	368547
Gross profit	**986430**	**866381**	**838315**	**882915**	**994564**
Operating expenses	844036	768586	738129	763731	835534
Operating profit	**142394**	**97795**	**100186**	**119184**	**159030**
Profit before tax	**107029**	**74200**	**67287**	**100530**	**133180**
Net profit	**78643**	**37452**	**34171**	**66714**	**92554**

Source: Oriflame comany Annual Report

We can see from income statement of Oriflame that both gross profit and net profit decreased from 2013 to 2015, increased from 2015 to 2017. The operating profit decreased from 2013 to 2014 and increased from 2014 to 2017. We can make a conclusion that Oriflame company experienced low tide from 2013 to 2015, the revenue was not optimistic and they made some change to make the company work will. Now, Oriflame's revenue increase a lot and may also increase in the future.

3.2.1 Vertical Common-size Analysis of Oriflame Company

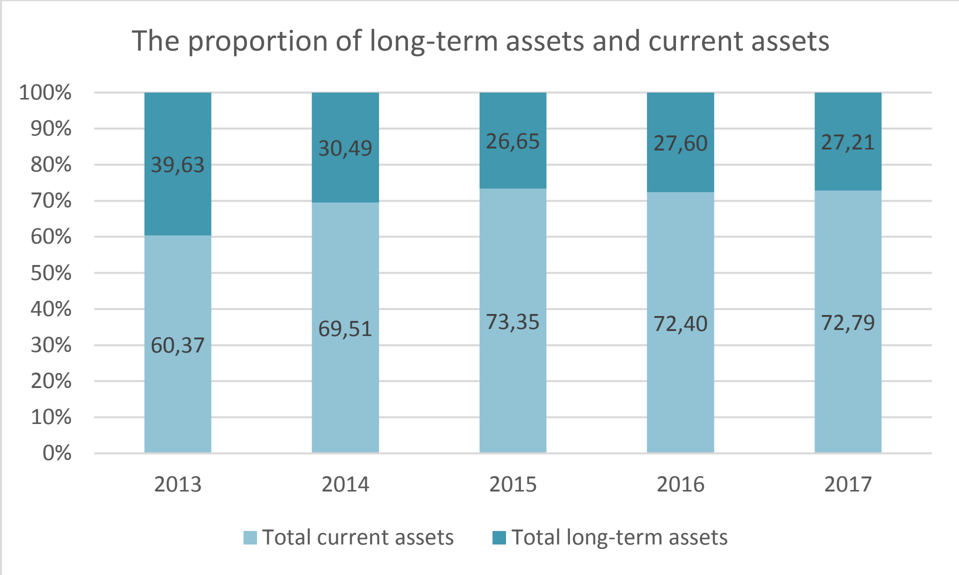
By using vertical common-size analysis, we should choose some benchmarks first. We can choose total assets, total liabilities and equity, revenue and so on. Then we need to calculate the proportion that every item as a percentage of the benchmarks.

First, we choose total assets as the benchmarks. So, the propotion of total assets is 100%. We can calculate the propotion of items in long-term assets and current assets according to the total assets. The fllowing Tab. 3.3 is the proportion of each iterm in total assets, and Chart. 3.1 is the proportion of items of assets.

Tab. 3.3: The proportion of each iterm in total assets(%).

	2013	2014	2015	2016	2017
Property, plant and equipment	33.18	24.73	21.16	22.10	20.88
Intangible assets	2.71	2.79	2.40	1.86	1.99
Investment property	0.12	0.08	0.07	0.07	0.07
Deferred tax assets	3.47	2.75	2.87	3.45	4.25
Other long-term receivables	0.15	0.14	0.14	0.13	0.01
Total long-term assets	**39.63**	**30.49**	**26.65**	**27.60**	**27.21**
Inventories	25.67	24.24	22.46	22.37	22.60
Trade and other receivables	10.90	11.64	8.67	9.57	10.90
Tax receivables	0.38	0.84	0.97	1.03	1.20
Prepaid expenses	6.96	6.23	5.12	4.87	3.82
Derivative financial assets	2.47	12.88	11.76	9.70	4.05
Cash and cash equivalents	13.99	13.67	24.37	24.87	30.23
Total current assets	**60.37**	**69.51**	**73.35**	**72.40**	**72.79**
Total assets	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Chart. 3.1: The proportion of long-term assets and current assets.



We can see from Tab. 3.3 and Chart. 3.1 that the proportion of total long-term assets decreased from 2013 to 2015, increased from 2015 to 2016 and finally decreased from 2016 to 2017. And total current assets increased from 2013 to 2015, then decreased a little from 2015 to 2016 , finally increased from 2016 to 2017. The main reason may be the increasing investment in property, plant and equipment in 2016.

Property, plant and equipment under construction category was mainly related to the construction of the new manufacturing facility in Russia. The global distribution centre is under activity from the fourth quarter 2012 and the manufacturing from the fourth quarter 2014, therefore they have been reclassified to the respective property, plant and equipment categories. So it influenced the long-term assets. In 2015, Oriflame increased cash and decreased short-term deposit which influenced the amount of current assets a lot.

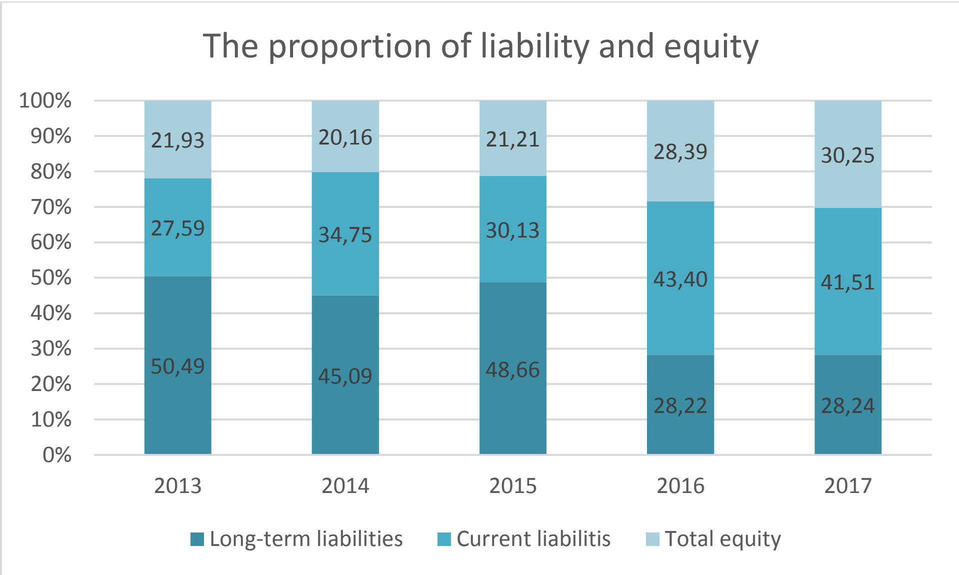
Also, long-term assets was smaller than current assets all the time and the gap become bigger year by year. The larger the proportion of current assets, indicating that the greater the liquidity of assets, the more current assets indicates that the short-term debt repayment ability increased a lot. But the profitability of current assets is lower than long-term assets, so the company need to increase long-term assets to make more profit. We can see that cash and cash equivalents increased year by year, so the company needs to invest these cash to some high profitbility program and make more profit.

Then we can choose total liability and equity as benchmark. The fllowing Tab. 3.4 is the proportion of each iterm in total liability and equity. And Chart. 3.2 is the proportion of libility and equity.

Tab. 3.4: The proportion of each iterm in total liability and equity(%).

	2013	2014	2015	2016	2017
Long-term liabilities	50.49	45.09	48.66	28.22	28.24
Current liabilities	27.59	34.75	30.13	43.40	41.51
Total liabilities	**78.07**	**79.84**	**78.79**	**71.61**	**69.75**
Total equity	**21.93**	**20.16**	**21.21**	**28.39**	**30.25**
Total liabilities and equity	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Chart. 3.2: The proportion of libility and equity.



We can see from Tab. 3.4 that total libilities increased from 2013 to 2014 and then decreased from 2014 to 2017. In liabilities, long-term liabilities accounted for a larger proportion from 2013 to 2015, but it decreased year by year. The overall trend of current liabilities was on the rise and from 2015 it exceeded long-term liabilities. In the early stage, long-term liabilities was bigger than current liabilities, so the cost was high and the financial risk was low. In late period, long-term liabilities was smaller than current liabilities, the cost was low and financial risk was high, also limitation on the use of funds was low.

In 2014, Oriflame committed to building a factory in Russia The Wellness manufacturing facility in Roorkee, India was also be constructed in 2014, and it became operational at the end of 2014. Oriflame borrowed some short-term debt to finance these constructions, so the total liabilities increased in 2014. After these constructions, the liabilities decreased from 2015.

The total equity decreased first and then increased. That means more people invested in the company and the profit increased a lot. But equity still less than liabilities. Oriflame company needs to improve itself to attract more people invest in it.

We can also choose revenue as the benchmark. The fllowing Tab. 3.5 is the proportion of each iterm in revenue.

Tab. 3.5: The proportion of each iterm in revenue(%).

	2013	2014	2015	2016	2017
Revenue	**100**	**100**	**100**	**100**	**100**
Cost of sales	29.88	31.56	30.81	29.33	27.04
Gross profit	**70.12**	**68.44**	**69.19**	**70.67**	**72.96**
Other income	3.68	3.55	3.64	3.55	3.32
Selling and marketing expenses	37.38	37.48	36.57	35.98	36.72
Distribution and infrastructure	8.16	8.18	7.70	7.53	7.00
Administrative expenses	18.56	18.85	21.08	21.17	20.90
Operating profit	**9.71**	**7.48**	**7.48**	**9.54**	**11.67**
Financial income	2.77	6.14	5.17	1.75	3.47
Financial expenses	4.87	7.76	7.10	3.24	5.37
Net profit before income tax	**7.61**	**5.86**	**5.55**	**8.05**	**9.77**
Tax	2.02	2.90	2.73	2.71	2.98
Net profit	**5.59**	**2.96**	**2.82**	**5.34**	**6.79**

We can see from the Tab. 3.5 that the gross profit decreased from 2013 to 2014 and then increased from 2014 to 2017. The gross profit accounted for the proportion of revenue about 70% and the cost about 30%. We can know the profit of Oriflame is good, but we can see in 2014, the gross profit decreased. For Oriflame, 2014 was distinguished by a number of challenges: the geopolitical instability in the key markets Russia and Ukraine, and the sharp devaluation of their currencies negatively impacted the business, sales and margins.

The operating profit was fluctuation and accounts for very low proportion of revenue. It was between 7% to 12%. The main reason may be the selling and marketing expenses and administrative expenses were too high. In 2014, Oriflame focused on building a new online platform- Oriflame Beauty Destination. Although it cost a lot but Oriflame can get lots of benefit. I don't think it is a serious problem to spent a lot on marketing expenses because a company needs to improve reputation and make more people know them. The expenses for advertising will have good return. The administrative expenses is also necessary. When the company develop to a certain size, it can decrease the operating expenses.

The financial income and financial expenses were relatively stable, and tax expenses accounted for 2% to 3%. Because the reason above, the net profit accounted low proportion of revenue. It decreased from 2013 to 2015 and increased from 2015 to 2017. The Oriflame company is still in the rapid development stage and need to matain the development trend.

3.2.2 Horizontal common-size analysis of Oriflame Company

Horizontal common-size analysis analyse financial statements data over the time or their changes with respect to a given period as a benchmark, to study the development of the company's business performance or financial situation changes. We can use the previous year as the benchmark and calculate the absolute change and percentage change to analyse the development trend of Oriflame company.

First, we can analyse the balance sheet. The fllowing Tab.3.6 is. absolute change of each item in balance sheet.

Tab. 3.6: The absolute change of each item in balance sheet (Euro'000).

	2013/2014	2014/2015	2015/2016	2016/2017
Long-term assets	-90823	-20363	13048	-6575
Current assets	22864	44852	9118	-6756
Total assets	**-67959**	**24489**	**22166**	**13331**
Long-term liabilities	-72018	36839	-141684	-3583
Current liabilities	31345	-24890	105583	-19620
Total liabilities	**-40673**	**11949**	**-36101**	**-23203**
Total equity	**-27286**	**12540**	**58267**	**9872**

The following Tab. 3.7 is. percentage change of each item in balance sheet.

Tab. 3.7: The percentage change of each item in balance sheet (%).

	2013/2014	2014/2015	2015/2016	2016/2017
Long-term assets	-29.88	-9.55	6.77	-3.19
Current assets	4.94	9.23	1.72	-1.25
Total assets	**-8.86**	**3.50**	**3.06**	**-1.79**
Long-term liabilities	-18.60	11.68	-40.24	-1.70
Current liabilities	14.81	-10.24	48.42	-6.06
Total liabilities	**-6.79**	**2.14**	**-6.33**	**-4.34**
Total equity	**-16.22**	**8.90**	**37.97**	**4.66**

According to Tab. 3.6 and Tab. 3.7, we can see that the long-term assets decreased from 2013 to 2015, increased from 2015 to 2016 and then decreased from 2016 to 2017. The current assets increased from 2013 to 2016 and decreased from 2016 to 2017. The reason is that the property,plant and equipment decreased from 2013 to 2015, increased from 2015 to 2016 and then decreased. The intangible assets also according to this trend fluctuated. The investment property decreased and matained a fixed amount from 2014 to 2017. The inventories as a whole showed a downward trend and cash and cash equivalents was on the rise trend.

The long-term liabilities decreased from 2013 to 2014, increased from 2014 to 2015 and then decreased from 2015 to 2017. And the rate of change was large. The current liabilities was fluctuating every year. The reason is that the fluctuation of long-term debt was large. The short term debt increased from 2013 to 2015, decreased from 2015 to 2016 and then increased a lot in 2017. Short-term debt have the advantage of lower interest rates and a steady supply of funds and repayments. The disadvantage is that they can not meet the long-term needs of the company. At the same time, the interests of company may be affected by the fluctuation of interest rates due to the fixed interest rate of short-term loans. The advantage of long-term debt is rapid fund-raising and flexibility. The disadvantage is the financing risk and large restrictions on the amount of funding. So it is approprate to adjust the long-term debt and short term debt. Total assets were on an upward trend and total liabilities were on a downward trend, total equity is also on an upward trend. This is the main trend of the items in financial statement of Oriflame company.

Then we can analyse the income statement. The fllowing Tab.3.8 is. absolute change of each item in income statement. The fllowing Tab.3.9 is. percentage change of each item in income statement.

Tab. 3.8: The absolute change of each item in income statement (Euro'000).

	2013/2014	2014/2015	2015/2016	2016/2017
Revenues	**-140872**	**-54286**	**37819**	**113729**
Cost	-20823	-26220	-6781	2080
Gross profit	**-120049**	**-28066**	**44600**	**111649**
Operating expenses	-75450	-30457	25602	71803
Operating profit	**-44599**	**2391**	**18998**	**39846**
Financial income	38735	-15015	-40821	25480
Financial expenses	29682	-12189	-45519	32676
Profit before tax	**-32829**	**-6913**	**33243**	**32650**
Net profit	**-41191**	**-3281**	**32543**	**25840**

Tab. 3.9: The percentage change of each item in income statement (Euro'000).

	2013/2014	2014/2015	2015/2016	2016/2017
Revenues	**-10.01**	**-4.29**	**3.12**	**9.10**
Cost	-4.95	-6.56	-1.82	0.57
Gross profit	**-12.17**	**-3.24**	**5.32**	**12.65**
Operating expenses	-8.94	-3.96	3.47	9.40
Operating profit	**-31.32**	**2.44**	**18.96**	**33.43**
Financial income	99.43	-19.33	-65.13	116.57
Financial expenses	43.31	-12.41	-52.91	80.66
Profit before tax	**-30.67**	**-9.32**	**49.40**	**32.48**
Net profit	**-52.38**	**-8.76**	**95.24**	**38.73**

We can see from Tab. 3.8 and Tab. 3.9 that revenue decreased from 2013 to 2015 and then increased a lot from 2015 to 2017. Because of the fluctuation of cost, the gross profit first reduced and then increased. It indidicated that Oriflame company sold more goods in recent year and they also tried to reduced the cost to make more profit. In financial terms, 2014 was a challenging year and the outcome was marginal sales growth in local currencies and, given the strong currency headwinds, a decline of 10 percent in euro sales – with margins under pressure. Oriflame were consistent in their efforts to compensate the negative exchange rate movements by price increases and costsaving initiatives.

Although opertaing expenses increased, because of the increasing of gross profit, the operating profit still increased, especially in 2016 and 2017.

The financial income increased in 2014, decreased from 2015 to 2016, then increased a lot in 2017. Financial expenses increased in 2014, decreased from 2015 to 2016 and then inceased in 2017. Because of the items mentioned above, the net profit decreased from 2013 to 2015 and then increased from 2016 to 2017. In 2014, Oriflame got lots of financial income in forward exchange rate contracts gain and cross currency interest rate swaps gain, so the financilal expenses were relatively high and the USD loan fair value loss was high. In 2016, Oriflame spent less money on financial investment and the opertaing profit was high, so the net profit was high.

So there is a conclusion that Oriflame company made a great progress in 2016 and changed the low profit in previous time. During 2016, important strategic initiatives were taken by Oriflame company. Oriflame company focused on: strategic product categories, driving sustainability across the business, continuing the online development, digital business transformation in the IT and finance areas and capturing manufacturing opportunities. Despite challenging market and macro conditions, Oriflame returned to Euro growth. The strong performance continued in the growth regions of Asia, Turkey and Latin America, and a stabilisation could be seen in Europe and Africa. Because of these strategies, Oriflame company changed a lot in 2016 and then made large progress in 2016 and 2017.

4 Financial Analysis of Oriflame Company

In this chapter, we will use financial ratio analysis to analyse Oriflame company. There are five kinds of ratios: profitbility ratio, liquidity ratio, solvency ratio and activity ratio. And we will also use DuPont analysis to analyse Oriflame company. By using these ways, we can analyse Oriflame company more comprehensive and deeper.

4.1 Profitability Ratios of Oriflame Company

Profitability ratios measure the ability to generate profit from invested capital in the form of return during a period (in %). There are four basic profitbility ratios: operating profit margin, net profit margin, return on assets and return on equity.

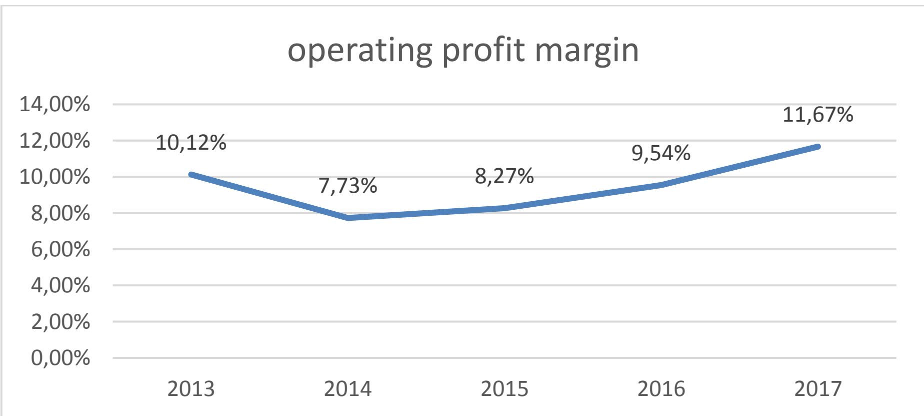
4.1.1 Operating Profit Margin.

Operating profit margin of Oriflame company from 2013 to 2017 is shown in Tab. 4.1 and Chart. 4.1 in the following.

Tab. 4.1: Operating profit margin of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Operating profit	142394	97795	100186	119184	159030
Revenue	1406721	1265849	1211563	1249382	1363111
Operating profit margin	**10.12%**	**7.73%**	**8.27%**	**9.54%**	**11.67%**

Chart. 4.1: Operating profit margin of Oriflame company.



Operating profit margin refers to the ratio of operating profit to operating revenue of a company. The higher the operating profit margin indicates the more business profits provided by the sales of goods, the stronger the profitability of the company. From Tab. 4.1 and Chart. 4.1, we can see that from 2013 to 2014, the operating profit magin of Oriflame decreased and from 2014 to 2017, the operating profit margin of Oriflame increased. The ratio of operating profit magin was between 7% to 12%. The lowest was on 2014 and ratio was 7.73%, the highest was on 2017 and ratio was 11.67%.

We can analyse why operating profit margin in 2014 was so low. We can see from the income statement that the operating profit was lowest in these years. In 2014, the revenue decreased a lot compared to 2013 so the gross profit decreased a lot. Also the selling and marketing expenses, distribution and infrastructure was relatively high in 2014, so the operating profit is low in 2014 and the operating profit margin in 2014 was so low.

We can see from the annual report of 2014 that in 2014 the CIS region faced several macro-economic and geopolitical challenges during the year, with sharp devaluations of some of Oriflame’s key currencies. The Success Plan was further strengthened during the year and started to deliver results with improved leadership and sales development. The Europe region continued to struggle to turn around its business. Initiatives were taken to reverse the development, such as the implementation of Success Plan changes and locally developed catalogues. After these changes, Oriflame company improved a lot in 2015 and the operating profit margin began to increasedfrom 2014, we can forecast the operating profit margin in 2018 will also increased if there isn't any accident.

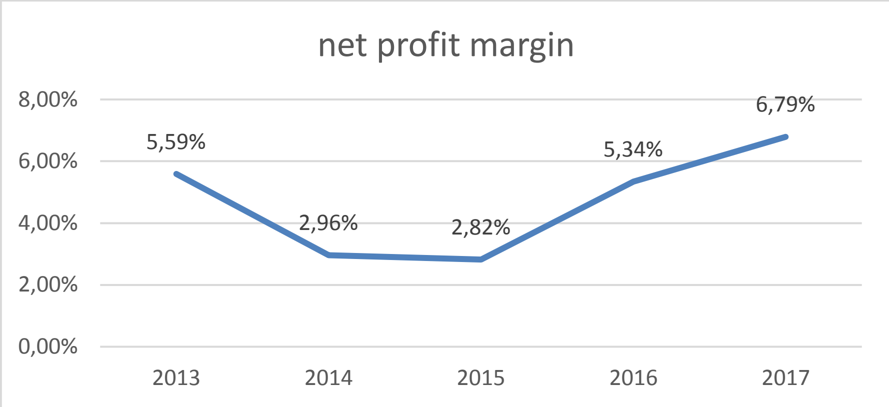
4.1.2 Net Profit Margin

Net profit margin of Oriflame company from 2013 to 2017 is shown in Tab. 4.2 and Chart. 4.2 in the following.

Tab. 4.2: Net profit margin of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
EAT	78643	37452	34171	66714	92554
Revenue	1406721	1265849	1211563	1249382	1363111
Net profit margin	**5.59%**	**2.96%**	**2.82%**	**5.34%**	**6.79%**

Chart. 4.2: Net profit margin of Oriflame company.



Net profit margin refers to the ratio of net profit to operating revenue of a company. The higher the net profit margin indicates the higher the pofitbility of the company. We can see from Tab. 4.2 and Chart. 4.2 that the net profit margin decreased from 2013 to 2015, especially in 2014, it decreased a lot. Net profit margin increased from 2015 to 2017, especially from 2015 to 2016, it increased a lot.

In 2014, the earning after tax decreased a lot and the revenue also decreased. According to the analysis of opertaing profit margin, we can know why net profit margin was so low in 2014. For Oriflame, 2014 was distinguished by a number of challenges: the geopolitical instability in the key markets Russia and Ukraine – and the sharp devaluation of their currencies – negatively impacted the business, sales and margins.

Next, we wil analyse why the net profit margin increased so much in 2016. In 2016, the revenue increased and the cost of sales decreased, so the gross profit increased a lot. In 2016, the greatest potential comes from leveraging the strong momentum in the high-growth regions of Asia, Turkey and Latin America. During the year, Oriflame took efficiency measures by establishing the separate manufacturing company Cetes Cosmetics AG to improve the capacity utilisation in manufacturing. Production efficiencies rendered from these initiatives will, combined with continued positive price/mix effects and sales leverage, enable to achieve long-term profitable growth.

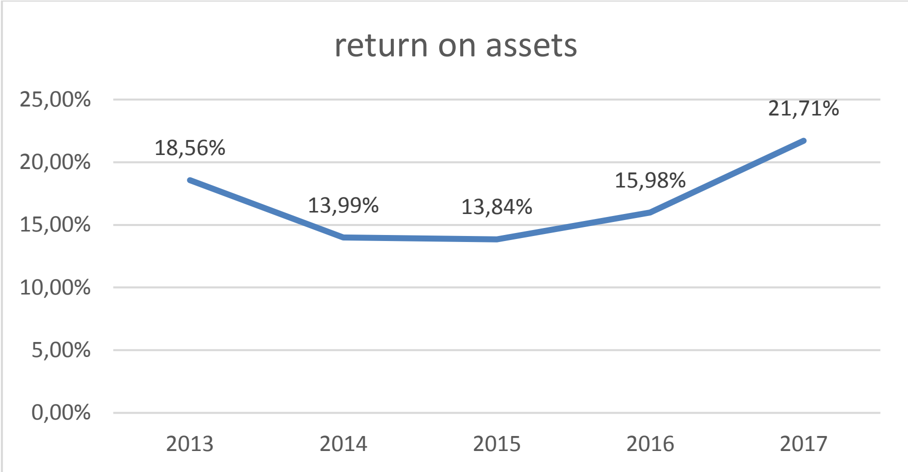
4.1.3 Return on Assets

Return on assets of Oriflame company from 2013 to 2017 is shown in Tab. 4.3 and Chart. 4.3 in the following.

Tab. 4.3: Return on assets of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Operating profit	142394	97795	100186	119184	159030
Assets	767098	699139	723628	745794	732463
Return on assets	**18.56%**	**13.99%**	**13.84%**	**15.98%**	**21.71%**

Chart. 4.3: Return on assets of Oriflame company



Return on assets is the ratio of the amount of operating profits to the average assets of the company. The higher the rate of return on assets indicates the higher efficiency of the use of company assets to create more profits, the profitability of the company will be stronger, the higher the level of business management. On the other hand, the lower the return on assets indicates the efficiency of the utilization of assets is not high and the profitability of the company is low, the lower the level of business management.

We can see from Tab. 4.3 and Chart. 4.3 that the return on assets decreased from 2013 to 2015 and increased from 2015 to 2017. The main reason was the operating profit decreased from 2013 to 2014 and increased from 2014 to 2017. The reason was same as the two ratios mentioned above. The reason of assets decreased from 2013 to 2014 was that the long-term assets decreased a lot. The Oriflme company spent less mony on property, plant and equipment, intangible assets and investment property. Before 2014, the factory built in Russia had started and the expenses had been spent. So the long-term assets decreased in 2014. The reason of the assets increased from 2014 to 2017 is that both long-term assets and current assets increased from 2014 to 2017.

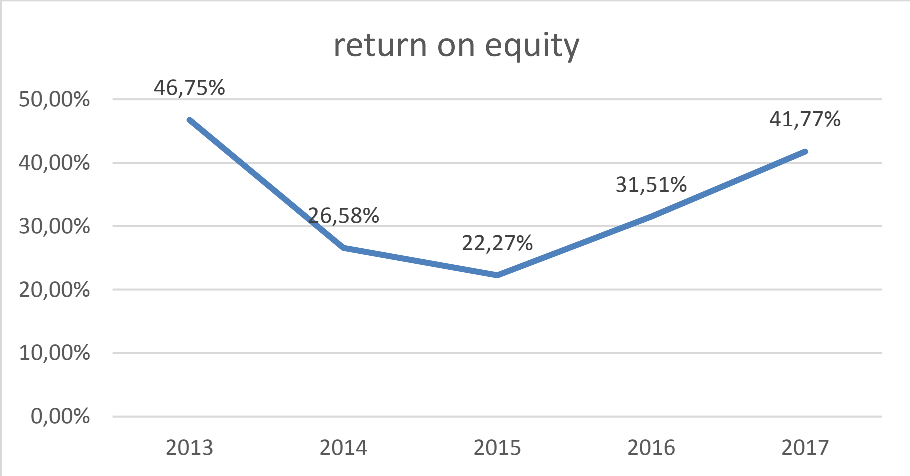
4.1.4 Return on Equity

Return on equity of Oriflame company from 2013 to 2017 is shown in Tab. 4.4 and Chart. 4.4.

Tab. 4.4: Return on equity of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
EAT	78643	37452	34171	66714	92554
Equity	168203	140917	153457	211724	221596
Return on equity	**46.75%**	**26.58%**	**22.27%**	**31.51%**	**41.77%**

Chart. 4.4: Return on Equity of Oriflame company.



Return on equity is the ratio of the amount of net profit to the equity of the company. The higher return on equity indicates the high ability to reinvest company earnings to generate more revenue. We can see from Tab. 4.4 and Chart. 4.4 that the return on equity decreased from 2013 to 2015 and increased from 2015 to 2017. It was the same variation tendency as the three ratios analysed above. The tendency of EAT had be explained above. The equity decreased from 2013 to 2014 and increased from 2014 to 2017.

In June 2015, Oriflame Holding AG became the new parent company of the Group after the move of the domicile from Luxembourg to Switzerland through a share-for-share transaction. The retained earnings were a large amount which lead to the increasing of equity in 2017.

We can see the tendency of all the profitbility ratios are general the same. All of them measure the ability to generate profit from invested capital in the form of return during a period. The higher profitbility ratios mean the company has better competitive position. The Oriflame company had worse competitive position from 2013 to 2014, and improved from 2015 to 2017.

4.2 Liquidity Ratios of Oriflame Company

Liquidity ratios measure the ability of a company to meet the short-term liabilities. They include three ratios: current ratio, quick ratio and cash ratio. We will analyse liquidity ratios of Oriflame company in detail in this part.

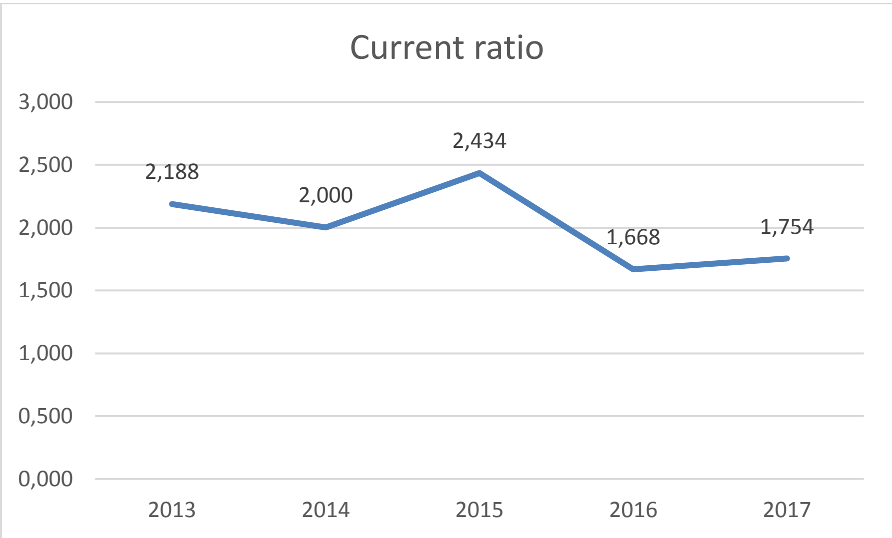
4.2.1 Current Ratio

We can see current ratio of Oriflame company from 2013 to 2017 in Tab. 4.5 and Chart. 4.5.

Tab. 4.5: Current ratio of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Current assets	463088	485952	530804	539922	533166
Current liabilities	211604	242949	218059	323642	304022
Current ratio	**2.188**	**2.000**	**2.434**	**1.668**	**1.754**

Chart. 4.5: Current ratio of Oriflame company.



The current ratio is the ratio of total current assets divided by total current liabilities. We ca see from Tab. 4.5 and Chart. 4.5 that the current ratio decreased from

2013 to 2014, increased from 2014 to 2015, decreased from 2015 to 2016 and increased from 2016 to 2017. Th current ratio fluctuated in these years and the number is around 2, it means the Oriflame comapny had large liquidity of assets. Oriflame company had the ability to meet short-term debt.

Then we will analyse the reason why the current ratio fluctuated in this tendency. The main reasons influenced the current assets fluctuated were the fluctuation of inventories, receivables, derivative financial assets and cash and cash equivalents. In 2015, Oriflame increased cash and short-term deposits, so the current assets increased. The main reasons influenced current liabilities were the fluctuation of the interest of short-term loan, accured expenses, derivative financial liabilities and so on. The interest-bearing loans and deferred income decreased a lot in 2015 so the current liabilities decreased in 2015. 2015 was a year with continued strong cash flow which enabled Oriflame to reduce the net debt. The reason why the Board of Directors continued to prioritise reducing the debt was that, in the first quater 2016, Oriflame need to pay $80.0m of the long-term debt.

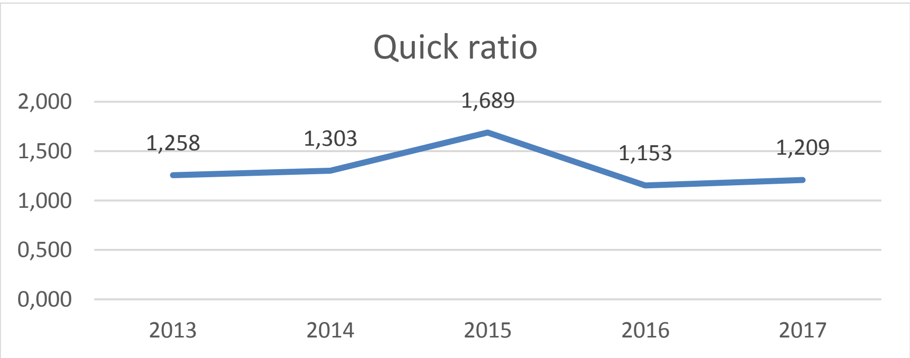
4.2.2 Quick Ratio

We can see the quick ratio of Oriflame company from 2013 to 2017 in Tab. 4.6 and Chart. 4.6.

Tab. 4.6: Quick ratio of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Current assets-inventories	266212	316474	368290	373089	367657
Current liabilities	211604	242949	218059	323642	304022
Quick ratio	**1.258**	**1.303**	**1.689**	**1.153**	**1.209**

Chart. 4. 6: Quick ratio of Oriflame company.



The quick ratio is the ratio of the quick assets divided by the total current liabilities. The quick assets are the current assets subtract inventories, they include cash and cash inventories, accounts receivable. They can be quickly used to pay off short-term debts and any possible expenses. From Tab. 4.6 and Chart. 4.6 we can see that from 2013 to 2015, the quick ratio increased and reached the top high, and then decreased in 2016, afer that it increased a little in 2017.

Quick ratio can reflect the ability to pay current liabilities more exactly. The quick ratio of Oriflame company were between 1 and 2, most of them were around 2. This shows that the company's stock of cash, bank deposits and various short-term assets that can be quickly realized were equivalent to the current liabilities and do not need to use inventories to repay all kinds of medium and short-term debt and other necessary expenses, indicating that the company's solvency was strong.

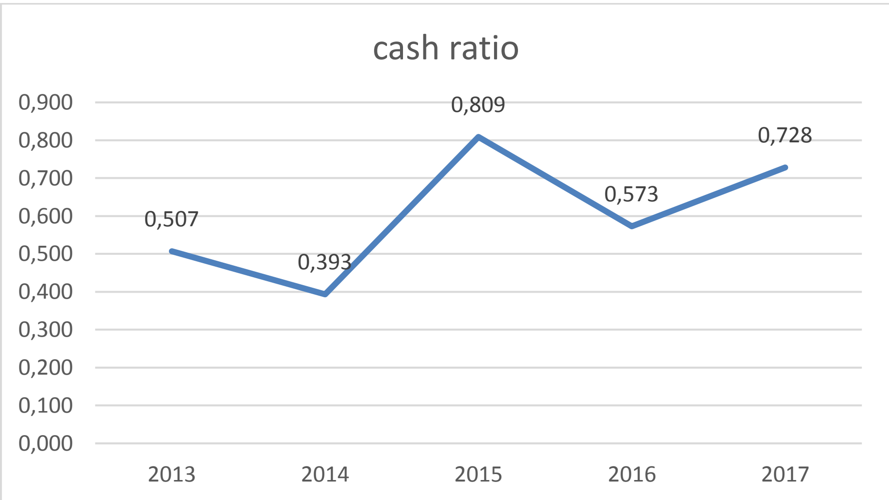
4.2.3 Cash Ratio

We can see the cash ratio of Oriflame company from 2013 to 2017 in Tab. 4.7 and Chart. 4.7.

Tab. 4.7: Cash ratio of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Cash+marketable securities	107336	95569	176384	185469	221399
Current liabilities	211604	242949	218059	323642	304022
Cash ratio	**0.507**	**0.393**	**0.809**	**0.573**	**0.728**

Chart. 4. 7: Cash ratio of Oriflame company.



Cash ratio is the ratio of cash and marketable securities divided by current liabilities. It is the best ratio to reflect the ability of a company to pay its current liabilities directly. We can see from Tab. 4.7 and Chart. 4.7 that the cash ratio decreased from 2013 to 2014, increased from 2014 to 2015, decreased from 2015 to 2016 and increased from 2016 to 2017. The tendency is the same as current ratio and quick ratio.

In 2014, the cash ratio was lowest in these year, Oriflame had the lowest ability to pay the current liabilities. The reason is in 2014, the current liablities were high but the cash was low. It may because Oriflame took more loans to invested in derivative financial assets. In 2015, the cash ratio was highest in these years because board of directors continued to prioritise reducing the debt to prepare to pay $80.0 million of the long-term debt in 2016. So the current cash was very high and the current liabilities was low in 2016.

4.3 Solvency Ratios of Oriflame Company

Solvency ratios measure a company's ability to pay the long-term debt. They include debt ratio, debt-to-equity ratio and interest coverage. In this part, we will use these ratios to analyse Oriflame company in detail.

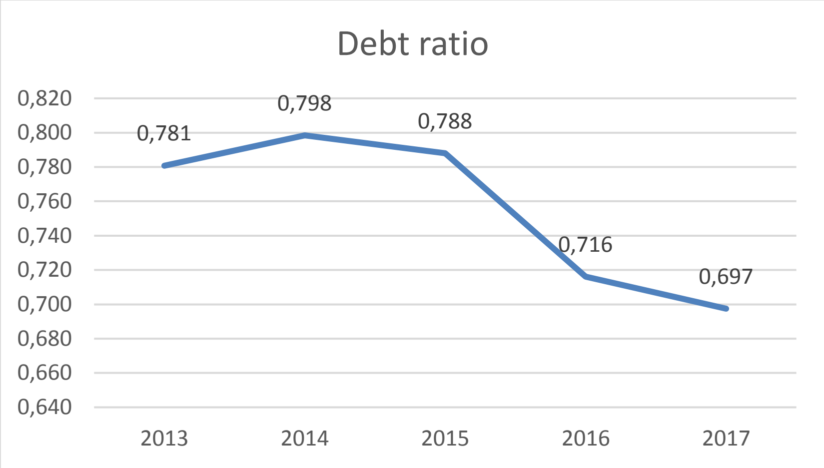
4.3.1 Debt Ratio

Debt ratio of Oriflame company from 2013 to 2017 is shown in Tab. 4.8 and Chart. 4.8.

Tab. 4.8: Debt ratio of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Total debt	598895	558222	570171	534070	510867
Total assets	767098	699139	723628	745794	732463
Debt ratio	**0.781**	**0.798**	**0.788**	**0.716**	**0.697**

Chart. 4. 8: Debt ratio of Oriflame company.



Debt ratio is the ratio of total debt divided by total assets. It reflects how much ratio the total assets is financed by borrowing, and how well the company protects the interests of creditors when liquidating. We can see from Tab. 4.8 and Chart. 4.8 that the debt ratio of Oriflame company increased from 2013 to 2014 and then decreased from 2014 to 2017.

2015 was a year with continued strong cash flow which enabled Oriflame to reduce the net debt. The reason why the Board of Directors continued to prioritise reducing the debt was that, in the first quater 2016, Oriflame need to pay $80.0m of the long-term debt. So the total debt decreased a lot in 2016 and total assets increased.

In general, the debt ratio of a company should between 40% to 60% and don't exceed 70%. But different companys may have different situation. We can see the debt ratio of Oriflame was between 60% and 80%. The company need about 70% debt to finance the assets, it was a little high. It indicates that the source of funds were more from debt than capital from the owner. And financial risk was relatively high, may be when the cash flow is insufficient, the funding chain will rupture and the company can not pay the debt in time, that will lead to bankruptcy of Oriflame. If the debt ratio is too high, it will lead to high financing costs. However, if the company use more external funds, the development is relatively fast. So Oriflame company was in the stage of development fast and it will improve in the future.

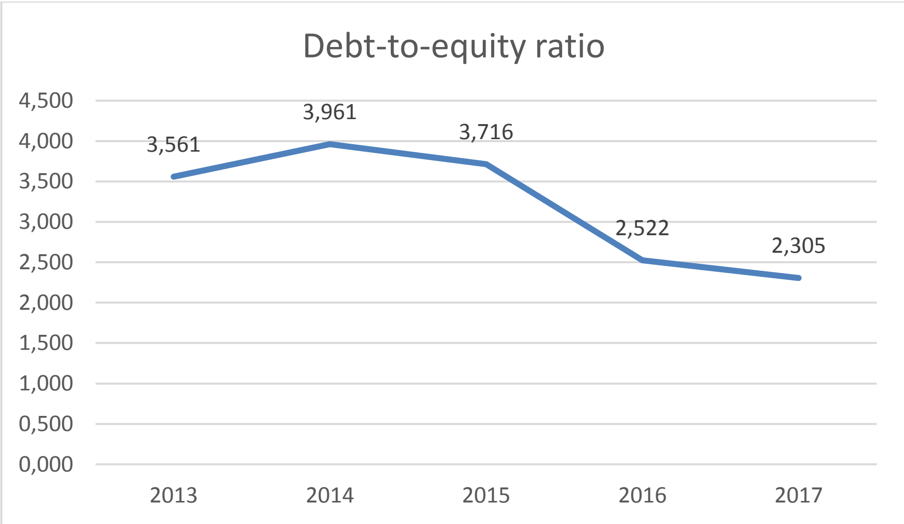
4.3.2 Debt to Equity Ratio

Debt ratio of Oriflame company from 2013 to 2017 is shown in Tab. 4.9 and Chart. 4.9.

Tab. 4.9: Debt to equity ratio of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Total debt	598895	558222	570171	534070	510867
Total equity	168203	140917	153457	211724	221596
Debt-to-equity ratio	**3.561**	**3.961**	**3.716**	**2.522**	**2.305**

Chart. 4. 9: Debt to equity ratio of Oriflame company



Debt-to-equity ratio reflects whether the company is mainly financed by creditors or by shareholders. The higher the ratio, the more companies rely on loans or corporate bonds to raise funds, but also reflect there is little space for the company to use financial leverage to pay the debt and have greater repayment pressure on repayment.

We can see from Tab. 4.9 and Chart. 4.9 that the trend of debt-to-equity ratio is the same as debt ratio. And the ratio was between 2 and 4. It was high for a company. Oriflame company relied more on loans to raise funds rather than equity. Oriflame should decrease the liabilities appropriatly and increase the equity to finance the company's operations. In this way, Oriflame can decrease the risk to pay the liabilities.

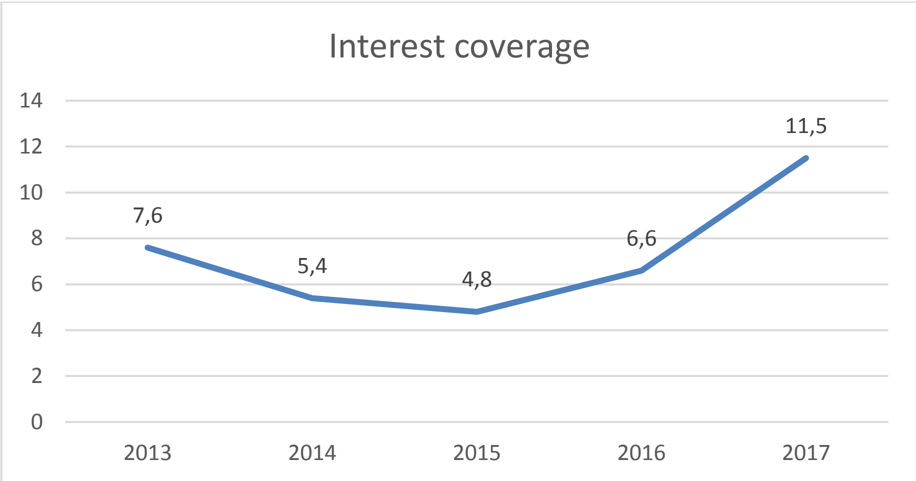
4.3.3 Interest Coverage

We can see the interest coverage of Oriflame company from 2013 to 2017 in Tab. 4.10 and Chart. 4.10.

Tab. 4.10: Interest coverage of Oriflame company.

	2013	2014	2015	2016	2017
Interest coverage	**7.6**	**5.4**	**4.8**	**6.6**	**11.5**

Chart. 4. 10: Interest coverage of Oriflame company.



Interest coverage is the ratio of operating profit divided by interest paid. It measures whether the company's current income can ensure payment of interest for the current period. It reflects the pressure on the interest payable by the company. The interest coverage of a company is a direct and concrete manifestation of its debt pressure. The higher of the interest coverage, the pressure to pay the interest is lower.

We can see from Tab. 4.10 and Chart. 4.10 that the interest coverage of Oriflame company decreased from 2013 to 2015 and then increased from 2015 to 2017. The lowest interest coverage was in 2015, and it was 4.8, the highest was in 2017 and it was 11.8. The reason is in 2014, Oriflame company borrowed more money fo operating but the operating profit was still low, so the interest coverage was low. In general, the interest coverage of Oriflame company is a little low, Oriflame company should try it best to improve the operating profit and improve the ability to pay for the interest.

Despite challenging market and macro conditions, Oriflame returned to Euro growth, delivered double-digit local currency growth and increased profitability during

2016. The strong performance continued in the growth regions of Asia & Turkey and Latin America, and a stabilisation could be seen in Europe & Africa. So the operating profit increased a lot in 2016 and 2016.

4.4 Activity Ratios of Oriflame Company

Activity ratios measure how well a company use its assets for the operation. They include average collection period, accounts receivable turnover, inventory turnover and total assets turnover. In this part, we will use these ratios to analyse the speed of the conversion of assets, to measure the efficiency of the use of corporate assets of Oriflame company.

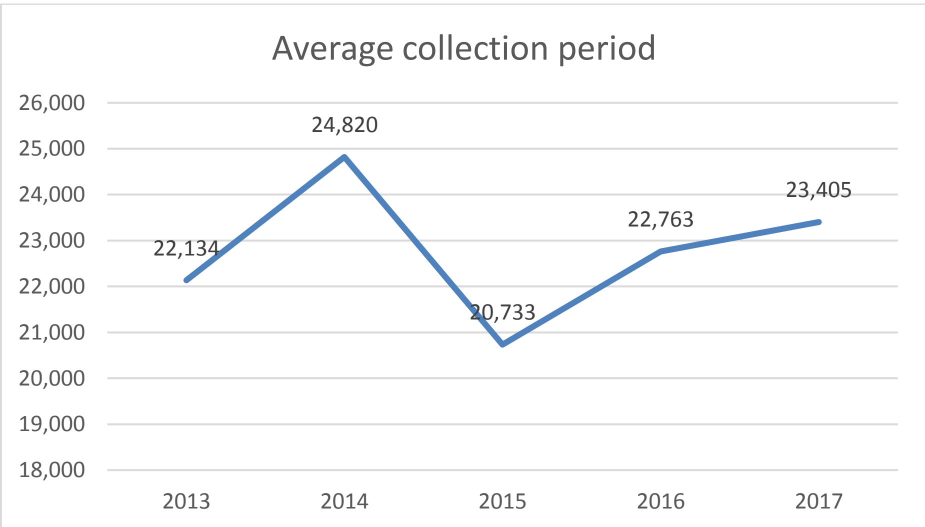
4.4.1 Average Collection Period (ACP)

We can see the average collection period of Oriflame company from 2013 to 2017 in Tab. 4.11 and Chart. 4.11.

Tab. 4.11: Average collection period of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Accounts receivable	86491	87275	69776	78999	88622
Revenues	1406721	1265849	1211563	1249382	1363111
ACP	**22.134**	**24.820**	**20.733**	**22.763**	**23.405**

Chart. 4. 11: Average collection period of Oriflame company.



Average collection period is the time that the company collects back the accounts receivable. We can see from Tab. 4.11 and Chart. 4.11 that the average collection period increased from 2013 to 2014, decreased from 2014 to 2015 and then increased from 2015 to 2017. The time was between 20 days and 25 days. In general, the average collection period of Oriflame was low, that means the accounts receivable can converted into cash quickly and the company had high liquidity.

In 2015, Oriflame decreased the accouts receivable to increase the stock of cash. Because it need to pay $80.0 million of the long-term debt in 2016. This leaded to the average collection period decreased in 2015.

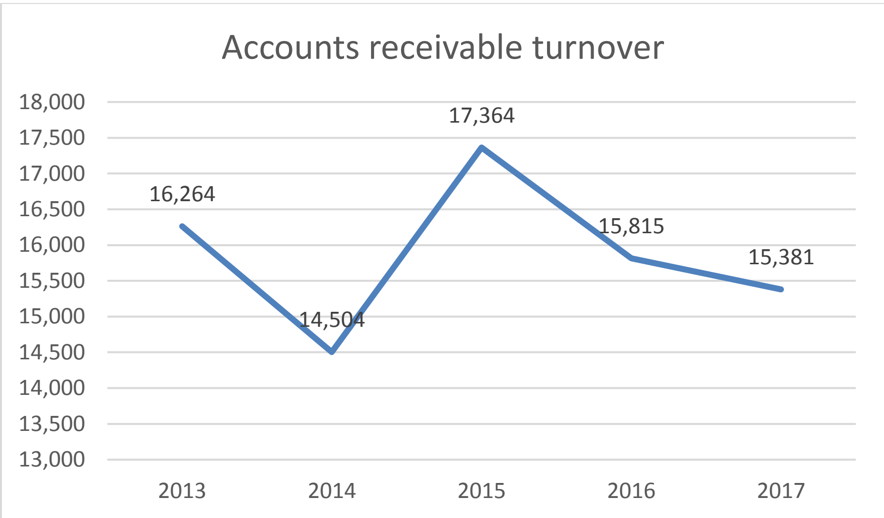
4.4.2 Accounts Receivable Turnover (ART)

Accounts receivable turnover of Oriflame company from 2013 to 2017 is shown in Tab. 4.12 and Chart. 4.12.

Tab. 4.12: Accounts receivable turnover of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Revenues	1406721	1265849	1211563	1249382	1363111
Accounts receivable	86491	87275	69776	78999	88622
ART	**16.264**	**14.504**	**17.364**	**15.815**	**15.381**

Chart. 4. 12: Accounts receivable turnover of Oriflame company.



Accounts receivable turnover reflects the times of accounts receivable be rolled over in a year. We can see from Tab. 4.12 and Chart. 4.12 that the accounts receivable turnover decreased from 2013 to 2014, increased from 2014 to 2015 and then decreased from 2015 to 2017. The reason we have explained in above. The trend of accounts receivable turnover is opposite to the trend of average collection period. The amount is relatively high means the liquidity of Oriflame company was high. It shows that the company had a quick collection of accounts and short average collection period. It also had a small loss of bad debts and rapid asset flows and strong solvency.

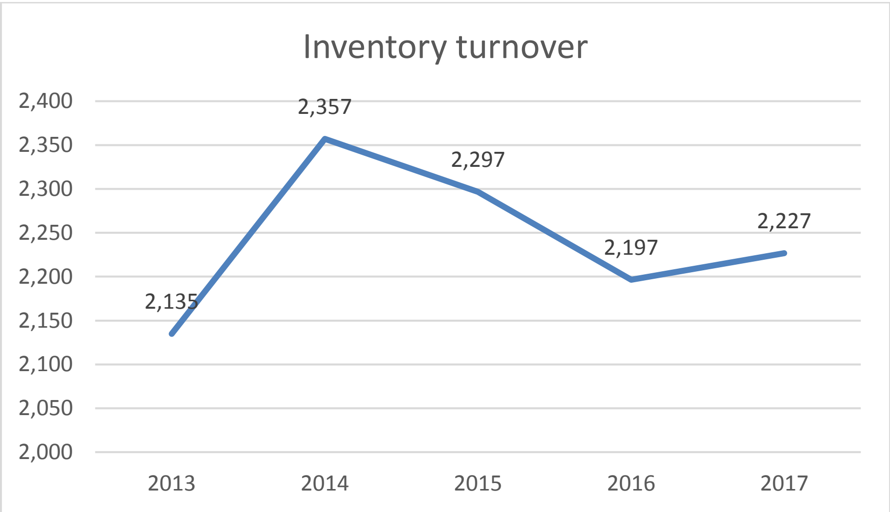
4.4.3 Inventory Turnover (IT)

We can see the inventory turnover of Oriflame company from 2013 to 2017 in Tab. 4.13 and Chart. 4.13.

Tab. 4. 13: *Inventory turnover of Oriflame company (Euro'000).*

	2013	2014	2015	2016	2017
Cost of sale	420291	399468	373248	366467	368547
Average inventory	196876	169478	162514	166833	165509
Inventory turnover	**2.135**	**2.357**	**2.297**	**2.197**	**2.227**

Chart. 4. 13: Inventory turnover of Oriflame company.



Inventory turnover is a certain period of business sales cost and the average inventory balance ratio. It is used to reflect the turnover speed of inventories and analyse whether the liquidity of inventory and the occupation of inventory funds are reasonable.

We can see from Tab. 4.13 and Chart. 4.13 that the inventory turnover increased from 2013 to 2014, decreased from 2014 to 2016 and then increased from 2016 to 2017.

The data were matained from 2.1 to 2.4 and the changes were a little. The main reason may be the fluctuations of the average inventory were small.

One of the main warehouses in India was completely destroyed by fire during the final quarter of 2013. The destroyed inventory and property, plant and equipment were fully insured. During 2014, the company wrote down €9.6 million inventory mainly due to obsolescence. In 2013, the company wrote down €2.1 million inventory mainly due to obsolescence and €7.8 million due to the destruction of the inventory in India caused by the fire. This caused the inventory changed as this tendency.

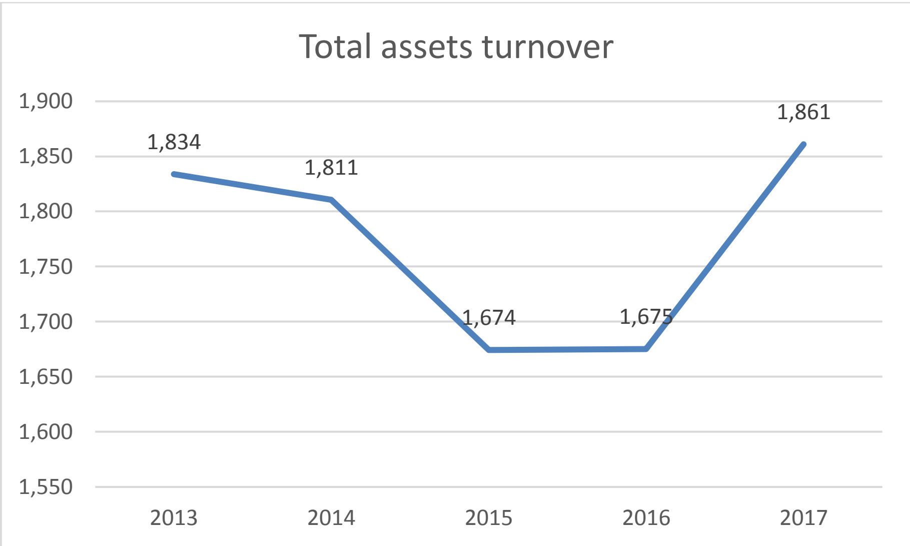
4.4.4 Total Assets Turnover (TAT)

Total assets turnover of Oriflame company from 2013 to 2017 is shown in Tab. 4.14 and Chart. 4.14.

Tab. 4. 14: Total assets turnover of Oriflame company (Euro'000).

	2013	2014	2015	2016	2017
Revenues	1406721	1265849	1211563	1249382	1363111
Total assets	767098	699139	723628	745794	732463
Total assets turnover	**1.834**	**1.811**	**1.674**	**1.675**	**1.861**

Chart. 4. 14: Total assets turnover *of Oriflame company.*



Total assets turnover is the ratio of revenues divided by total assets. It reflects the flow of all assets from input to output during the operation of the company. It also reflects the management quality and utilization efficiency of all the assets of the company.

We can see from Tab. 4.14 and Chart. 4.14 that the total asset turnover decreased from 2013 to 2015 and increased from 2015 to 2017. The reason why total assets turnover was so low in 2015 was that, the revenue decreased but the total assets increased. The reason we have explained above. Oriflame company increased the assets and decreased the debt to prepare to pay the large debt in 2016. In general, the toal assets turnover of Oriflame company were high, it reflects the sales ability was strong and the benefit of asset investment was high.

4.5 DuPont Analysis of Oriflame Company

In this chapter, we will use DuPont analysis of return on equity to analyse Oriflame company. As we have introduced in chapter 2, ROE can be decomposed to three components: net profit margin($\frac{EAT}{\mathrm{Re}\,venues}$), assets turnover($\frac{\mathrm{Re}\,venues}{Total\ assets}$), financial leverage($\frac{Total\ assets}{Equity}$). ROE can also be composed to five components: tax burden($\frac{EAT}{EBT}$), interest burden($\frac{EBT}{EBIT}$), operating margin($\frac{EBIT}{\mathrm{Re}\,venues}$), assets turnover($\frac{\mathrm{Re}\,venues}{Total\ assets}$), financial leverage($\frac{Total\ assets}{Equity}$). We will decompose ROE in three components because it is more convenient for us to compute it. Tab. 4.15 is the values of each component. Tab. 4.16 is values of absolute change of each component.

Tab. 4.15: Values of each component from 2013 to 2017.

	2013	2014	2015	2016	2017
Net profit margin	0.0559	0.0296	0.0282	0.0534	0.0679
Assets turnover	1.8338	1.8106	1.6743	1.6752	1.8610
Financial leverage	4.5605	4.9614	4.7155	3.5225	3.3054
ROE	0.4675	0.2658	0.2227	0.3151	0.4177

Tab. 4.16: Values of absolute change of each component from 2013 to 2017.

	2013/2014	2014/2015	2015/2016	2016/2017
Net profit margin	-0.0263	-0.0014	0.0252	0.0145
Assets turnover	-0.0232	-0.1363	0.0009	0.1858
Financial leverage	0.4008	-0.2458	-1.1930	-0.2171
ROE	-0.2018	-0.0431	0.0924	0.1026

As we can see in Tab. 4.15, the net profit margin decreased from 2013 to 2015 and then increased from 2016 to 2017. We have analysed in the analysis of profitability ratios. The assets turnover decreased from 2013 to 2015 and then increased from 2016 to 2017. We have analysed in the analysis of activity ratios. Fianacial leverage increased from 2013 to 2014 and then decreased from 2014 to 2017.

In this thesis, we will use method of gradual changes to analyse how the component ratios contribute to the change in basic ratio. Method of gradual changes works with absolute changes in component ratios. We can see the resaults of using methods of gradual changes from 2013 to 2014 in Tab. 4.17, the resault from 2014 to 2015 in Tab. 4.18, the resault from 2015 to 2016 in Tab. 4.19, the resault from 2016 to 2017 in Tab. 4.20.

Tab. 4.17: Methods of gradual changes in 2013 and 2014.

	2013(a0)	2014(a1)	change(Δa)	influence(ΔXa)	order
Net profit margin(a1)	0.0559	0.0296	-0.0263	-0.2201	1
Assets turnover(a2)	1.8338	1.8106	-0.0232	-0.0031	3
Financial leverage(a3)	4.5605	4.9614	0.4008	0.0215	2
SUM				-0.2018	

$\Delta Xa_1 = -0.0263 \times 1.8338 \times 4.5605 = -0.2201$

$\Delta Xa_2 = 0.0296 \times -0.0232 \times 4.5605 = -0.0031$

$\Delta Xa_3 = 0.0296 \times 1.8106 \times 0.4008 = 0.0215$.

Tab. 4.18: Methods of gradual changes in 2014 and 2015.

	2014(a0)	2015(a1)	change(Δa)	influence(ΔXa)	order
Net profit margin(a1)	0.0296	0.0282	-0.0014	-0.0124	2
Assets turnover(a2)	1.8106	1.6743	-0.1363	-0.0191	1
Financial leverage(a3)	4.9614	4.7155	-0.2458	-0.0116	3
SUM				-0.0431	

$\Delta Xa_1 = -0.0014 \times 1.8106 \times 4.9614 = -0.0124$

$\Delta Xa_2 = 0.0282 \times -0.1363 \times 4.9614 = -0.0191$

$\Delta Xa_3 = 0.0282 \times 1.6743 \times -0.2485 = -0.0116$.

Tab. 4.19: Methods of gradual changes in 2015 and 2016.

	2015(a0)	2016(a1)	change(Δa)	influence(ΔXa)	order
Net profit margin(a1)	0.0282	0.0534	0.0252	0.1989	1
Assets turnover(a2)	1.6743	1.6752	0.0009	0.0002	3
Financial leverage(a3)	4.7155	3.5225	-1.1930	-0.1067	2
SUM				0.0924	

$\Delta Xa_1 = 0.0252 \times 1.6743 \times 4.7155 = 0.1989$

$\Delta Xa_2 = 0.0534 \times 0.0009 \times 4.7155 = 0.0002$

$\Delta Xa_3 = 0.0534 \times 1.6752 \times -1.1930 = -0.1067$.

Tab. 4.20: Methods of gradual changes in 2016 and 2017.

	2016(a0)	2017(a1)	change(Δa)	influence(ΔXa)	order
Net profit margin(a1)	0.0534	0.0679	0.0145	0.0856	1
Assets turnover(a2)	1.6752	1.8610	0.1858	0.0444	2
Financial leverage(a3)	3.5225	3.3054	-0.2171	-0.0274	3
SUM				0.1026	

$\Delta Xa_1 = 0.0145 \times 1.6752 \times 3.5225 = 0.0856$

$\Delta Xa_2 = 0.0679 \times 0.1858 \times 4.7155 = 0.0444$

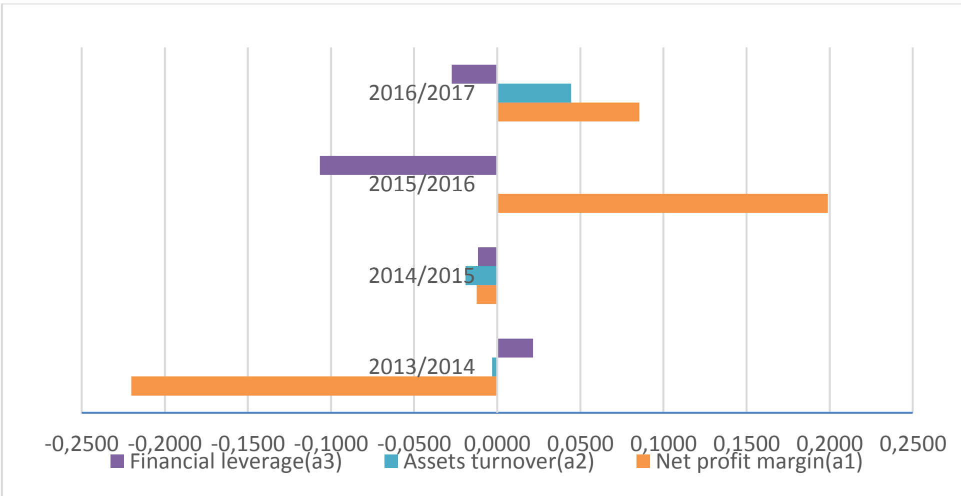
$\Delta Xa_3 = 0..0679 \times 1.8610 \times -0.2171 = -0.0274$.

Then, we put these resaults together from 2013 to 2017 in Tab.4.21 and Chart. 4.15. So that we can analyse the data more easily.

Tab. 4.21: Methods of gradual changes from 2013 to 2017.

	2013/2014	2014/2015	2015/2016	2016/2017
Net profit margin(a1)	-0.2201	-0.0124	0.1989	0.0856
Assets turnover(a2)	-0.0031	-0.0191	0.0002	0.0444
Financial leverage(a3)	0.0215	-0.0116	-0.1067	-0.0274
SUM	-0.2018	-0.0431	0.0924	0.1026

Chart. 4.15: Methods of gradual changes from 2013 to 2017.



We can see from Tab. 4.17 that the influence of net profit margin is -0.2201, the influence of assets turnover is -0.0031 and the influence of financial leverage is 0.0215. Both of net profit margin and assets tuenover are negative influence which means if net profit margin and assets turnover increase, the return on equity will decrease. But if financial leverage increase, the return on equity will decrease. From 2013 to 2014, the net profit margin had greatest impact on return on equityand it was negative influence. The assets turnover had least influence on return on equity and the influence was also negative.

From Tab. 4.18 we can see that all these components had negative impact on return on equity from 2014 to 2015. Among these components, assets turnover had largest impact on return on equity and financial leverage had least impact on equity. If these components increase, return on equity will decrease.

We can see from Tab. 4.19 that net profit margin and assets turnover had positive impact on return on equity, financial leverage had negative impact on return on equity from 2015 to 2016. And net profit margin had greatest impact on return on equity, assets turnover had least impact on return on equity.

From Tab. 20 we can see that the influence of these components are roughly similar to the time from 2015 to 2016. From 2016 to 2017, net profit margin had greatest impact on return on equity and financial leverage had least impavt on return on equity.

Then we put these results together to analyse Tab. 4.21 and Chart. 4.15. We can see that the net profit margin had positve impact on ROE in 2015/2016 and 2016/2017, it had negative impact on ROE in 2013/2014 and 2014/2015. Net profit had largest impact on ROE in 2013/2014, it had least impact in 2014/2015 and both of them are negative impact. We can see that assets turnover have positive impact on ROE in 2015/2016 and 2016/2017, it had negative impact in 2013/2014 and 2014/2015. Assets turnover had largest impact on ROE in 2016/2017 and least impact in 2015/2016. We can also see that financial levarage had positive impact on ROE in 2013/2014 and negative impact in 2014/2015, 2015/2016, 2016/2017. Financial leverage had largest impact on ROE in 2015/2016 and the least impact in 2014/2015.

We can see directly in Chart. 4.15 that the net profit margin influenced ROE mostly from 2013 to 2017 and assets turnover had least impact on ROE from 2013 to 2017.

DuPont analysis includes three metods: methods of gradual changes, logarithmic decomposition method, functional decomposition method, and integral method. All of these methods may lead to the same resaults about how the component ratios contribute to the change in basic ratio. So we just use the first method: methods of gradual changes to analyse.

4.6 Summary

In chapter 4, we used profitbility ratios, liquidity ratios, solvency ratios, activity ratios and DuPont analysis to analyse the financial situation of Oriflame company from 2013 to 2017. In this part, we will make a summary.

From the perspective of profitibility ratios, operating profit margin reached the lowest point in 2014 and then increased year by year; net profit margin, return on assets, return on equity also reached the lowest point in 2015 and then increased year by year. So we can make a conclusion that in 2014 and 2015, Oriflame company had the lowest profitability. And Oriflame company had the highest profitbility in 2017. For Oriflame, 2014 was distinguished by a number of challenges: the geopolitical instability in the key markets Russia and Ukraine and the sharp devaluation of their currencies had negatively impacted the business, sales and margins. In Europe region, local currency sales decreased by 8% and the overall development in Europe was weak. In Latin America, import restrictions in Ecuador affected sales in the market negatively.

From the perspectve of liquidity ratios, all the current ratio, quick ratio and cash ratio were fluctuation from 2013 to 2017. All of them reached highest poin in 2015. One of the main warehouses in India was completely destroyed by fire during the final quarter of 2013. The destroyed inventory and property, plant and equipment were fully insured. This leaded to the large inventory in 2014 which mainly due to obsolescence. On 29 February 2016 the Oriflame company had repaid USD 80 million of the long term debt related to the U.S. private placement notes issued in 2011. So the board of directors continued to prioritise reducing the debt in 2015 and increase the current assets.

From the perspectve of solvency ratios, debt ratio and debt-to-equity ratio were decreased a lot from 2013 to 2017; interest coverage increase a lot. The assets were so few in 2014 is that the propoty, plant and equipment, investment proporty and deferred tax assets decreaesd a lot in 2014. Property, plant and equipment under construction category was mainly related to the construction of the new manufacturing facility in Russia. The global distribution centre was under activity from the fourth quarter 2012 and the manufacturing from the fourth quarter 2014, therefore they had been reclassified to the respective property, plant and equipment categories. The sharp devaluation of currencies in Russia and Ukraine caused foreign currency translation differences for foreign operations and revaluation reserve increased a lot, so the equity decreased a lot in 2014. These leaded to the debt ratio and debt-to-equity ratio were high in 2014. The operating profit was low in 2015 but Orifame still need to pay the interest, so the interest coverage was low in 2015.

From the perspectve of activity ratio, all of the ratios were fluctuation but the level were not change a lot. In order to pay the large debt in 2016, Oriflame decreased the accounts receivable and convert them into cash in 2015. So the average collection period was so low and accounts receivable turnover was so high in 2015. From 30 November 2014 the company sold its wholly owned subsidiary Oriflame Products Sweden AB (Nordium AB). The loss on disposal of the Swedish factory leaded to inventories decreased a lot in 2014. Among the inventories, the raw materials and work in progress decreased a lot in 2014 compared with 2013.

From the perspective of DuPont analyses, we can know that the net profit margin had largest impact on ROE, and assets turnover had least impact on ROE from 2013 to 2017. It also means the net profit had the largest impact on ROE of Oriflame, and the total assets had least impact on ROE of Oriflame. So Oriflame should increase net profit margin in 2018 to increase ROE. It means increase the net profit, increase the revenue of operating activity and financing activity, decrease the cost of operating activity and financing activity.

After we analyse the financial sutuation of Oriflame, we can give it some recommendations. First, we can see the operating profit increased from 2014 to now. Oriflame should also increase the operating profit in the future and increase the operating profit margin. Increase operating profit means increase the revenue and decrease the cost and operating expenses. In a nutshell, Oriflame should increase the amount of goods sold, increase the price properly, and decrease the operating cost such as the packing expenses and so on. Then, Oriflame should increase the return on assets.It means it should increase the efficiency of use assets to creat more profit. Investing on high return project is a good choice. This will make the company become more profitbility. Next, Oriflame should increase the equity. As we have analysed, Oriflame rely more on liabilities than equity. Equity of the company is very important and it is very important to increase equity. It should attract more investors to invest in the company. And Oriflame also need to use these capital invest in high return poject and make full use of these capital. Last, the debt to equity ratio is too high and fortunately it increased these years. Oriflame should decrease the debt to equity ratio in the future and make some changes.

5 Conclusion

Financial analysis has a very important strategic role in the companies and can provide a great help for the company's financial decision-making, financial planning and financial control. With the improvement of the current corporate system, financial analysis has become an important management activity for companies. The market system is improving day by day and the requirements for companies are increasing. Financial analysis has become an important way to evaluate the status of companies management operations. It can be used to analyze the company’s ability to survive and develop, its solvency and profitability, and its overall business level.

The goal of this thesis was to analyse the financial situation of Oriflame company from 2013 to 2017 by using financial ratio analysis and DuPont analysis.

In chapter 1, we had a brief introduction about this thesis; in chapter 2, we analysed the methodology which included financial statements, common-size analysis and financial ratio analysis; in chapter 3, we introduced Oriflame company and use common-size analysis to analyse the financial situation of Oriflame company; in chapter 4, we used financial ratio analysis and DuPont analysis to analyse Oriflame company specificly. In the following part, we will analyse these chapters specificly below.

Chapter 2 included three parts. The first part was financial statements which included balance sheet, income statement and cash flow statement. Financial statement is the base of financial analysis. Through the analysis of the company's financial statements, it can evaluate the business situation of the company, measure the financial status of the company, and predict the future development trend of the company. The second part was common-size analysis which included vertical common-size analysis and horizontal common-size analysis. We could analyse financial statements data and their changes over time, and to identify the trends and major differences. The third part was financial ratio analysis which included four ratios: profitbility ratios, liquidiy ratios, solvency ratios, activity ratios and DuPont analysis. By analyzing these ratios, we can make scientific judgments on the financial and operational performance and profitability of the company. By analyzing the financial statements and these ratios can help the company to make effective decisions and help the company to develop more stable and healthy.

Chapter 3 included two parts. The first part was the introduction of Oriflame company. Oriflame is a leading beauty company selling direct. They are present in more than 60 countries, of which they are the market leader in more than half. They offer a wide range of high-quality beauty products as well as a unique opportunity to join their sales force. The second part was common-size analysis which included vertical common-size analysis and horizontal common-size analysis. From the analysis we can make some conclusion. From vertical common-size analysis we can know: The long-term assets occupied less proportion than current assets in total assets; the liabilities occupied more proportion than liabilities; before 2015 the long-term liabilities occupied more propotion than current liabilities and after 2015 it is on the contrary. From horizontal common-size analysis we can know from 2013 to 2015 the financial situation of Oriflame was not so good and then in 2016 and 2017 the company made great progress.

Chapter 4 included four ratios: profitbility ratios, liquidity ratios solvency ratios and activity ratios and DuPont analysis. The profitbility of Oriflame was relatively low from 2013 to 2015 and then increaesd a lot in 2016 and 2017. The liquidity of Oriflame reached the highest point in 2015 and the overall level of liquidity was normal. The solvency ability was high in 2014 and 2015 and then decreased in 2016 and 2017. The ability to use assets for operation was in normal level. In DuPont analysis we analysed how the component ratios effect ROE. We can make a conclusion that the net profit margin had largest effect on ROE.

In order to keep this pace of development, Oriflame can take some measures. As we have mentioned in 4.6, Oriflame can increase the operating profit and net profit. Increase operating profit means increase the revenue and decrease the cost and operating expenses. It also means Oriflame should increase the amount of goods sold, increase the price properly, and decrease the operating cost such as the packing expenses and so on. Because in Dupont analysis, the net profit margin influenced ROE mostly. So it is very important to increase net profit margin, increase the earning and profit. They also need to increase equity, attact more people invest in the company. Because Oriflame relies more on liabilities than equity now, but it is important to have enough equity. Because in Dupont analysis, the net profit

Improving the profitbility is the most important aim for all the companies. Online development is a good strategy to keep. Oriflame need to spent more on advertisement.

Though it may cost a lot, but it is necessary. They need to improve their publicity to make more customers know them and attract more investors invest in Oriflame and participate them. They also need to develop new and unique products which is most important. There are so many beauty companies in the world, distinctive and innovation is very important. The largest market of Oriflame is Asia and Turkey, and in 2017 the sales in Asia and Turkey occupied 40% and the operating profit occupied about 53%. Oriflame can open their market in some western economic power countries, such as United States, Japan, Germany, France, Italy and so on. It is very important to improve their competitiveness. If Oriflame can open more markets, improve the reputation and develop new and unique products, they will make large profit in the future.

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List of Abbreviations

A	Assets
ACP	Average collection period
ART	Accounts receivable turnover
EAT	Earning b tax
EBIT	Earning before interest and tax
IT	Inventory turnover
NPM	Net profit margin
OP	Operating profit
OPM	Operating margin
REV	Revenue
ROA	Return on assets
ROE	Return on equity
TAT	Total assets turnover

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Ostrava dated 29. 3. 2018

伍子祎 Ziyi Wu

List of Annexex

Annexes

Annexes 1: Balance sheet of Oriflame(Euro'000).

	2013	2014	2015	2016	2017
Assets					
Property, plant and equipment	254537	172904	153138	164831	152919
Intangible assets	20802	19532	17356	13849	14595
Investment property	928	542	542	542	542
Deferred tax assets	26614	19201	20796	25702	31136
Other long-term receivables	1129	1008	992	948	105
Total long-term assets	**304010**	**213187**	**192824**	**205872**	**199297**
Inventories	196876	169478	162514	166833	165509
Trade and other receivables	83597	81410	62725	71352	79812
Tax receivables	2894	5865	7051	7647	8810
Prepaid expenses	53412	43563	37032	36283	27954
Derivative financial assets	18973	90067	85098	72338	29682
Cash and vash equivalents	107336	95569	176384	185469	221399
Total current assets	**463088**	**485952**	**530804**	**539922**	**533166**
Total assets	**767098**	**699139**	**723628**	**745794**	**732463**
Equity					
Share capital	71517	71527	79788	79850	79850
Treasury shares	-41235	-41235	-621	-90	-90
Reserves	-84458	135306	-178675	-167017	-164732
Retained earnings	222379	245931	-401416	333104	-241906
Total equity	**168203**	**140917**	**153457**	**211724**	**221596**
liabilities					
Interest-bearing loans	379672	310329	343437	199713	195113
Other long-term non interest-bearing liabilities	2592	1433	839	3691	3983
Deferred income	406	279	324	296	4938
Deferred tax liabilities	4621	3232	3860	2869	309
Total long-term liabilities	**387291**	**315273**	**352112**	**210428**	**2502**
Current portion of interest-bearing loans	2744	30163	2963	66836	206845
Trade and other payables	82357	86915	82345	95292	48477
Deferred income	3148	2948	767	421	311
Tax payables	10878	12492	15324	17032	15669
Accured expenses	98082	88769	99072	122208	127811
Derivate financial liabilities	6440	14652	3785	5458	2392
Provisions	7955	7010	13803	5228	3567
Total current liabilities	**211604**	**242949**	**218059**	**323642**	**304022**
Total liabilities	**598895**	**558222**	**570171**	**534070**	**510867**
Total equity and liabilities	**767098**	**699139**	**723628**	**745794**	**732463**

Annexes 2: Income statement of Oriflame(Euro'000).

	2013	2014	2015	2016	2017
Revenue	1406721	1265849	1211563	1249382	1363111
Cost of saes	420291	399468	373248	366467	368547
Gross profit	986430	866381	838315	882915	994564
Other income	51811	44998	44124	44331	45311
Selling and marketing expenses	525847	474496	443117	449516	500577
Distribution and infrastructure	114724	103560	93336	94056	95384
Administrative expenses	261062	238597	255347	264496	284884
Operating profit	142394	97795	100186	119184	159030
Financial income	38959	77694	62679	21858	47338
Financial expenses	68538	98220	86031	40512	73188
Net profit before income tax	112815	74200	67287	100530	133180
Tax	28386	36748	33116	33816	40626
Net profit	78643	37452	34171	66714	92554